

CITY OF COTTONWOOD, ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Mayor
Ruben Jauregui

Vice Mayor
Randy Lowe

Councilmembers

	Diane Joens	Ing Kingland
Linda Norman	Karen Pfeifer	Robert Rothrock

City Manager
Brian Mickelsen

Finance Director
Jesus R. Rodriguez, CGFM

Prepared by:
The Finance Department

CITY OF COTTONWOOD, ARIZONA
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INTRODUCTORY SECTION

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December 29, 2005

Dear Citizens:

City staffs spent their time working on various projects during fiscal year 2004-05. Though each City project is important, there are a few that emphasize the vast efforts that were made this year by City staff and crews. The largest by far was the acquisition of three of the four local water companies that came to fruition in October 2004, after many years of planning, research, and negotiation. This is an excellent example of the City's commitment to ensuring that the community has ample water resources, as well as protecting those resources through conservation.

The completion of a \$1.2M Old Town Renovation Project came to fruition this fiscal year, providing Old Town with a much needed facelift. This project was important to the City, reflecting its dedication to the community's historical heritage. The improvements to Old Town included, new sidewalks, period lampposts, and all-around landscaping with benches, trees, and rock walls.

The City began the construction phase to the new Little League Ball Park Complex at Riverfront Park at a price tag of \$1M. This project has assistance from a Heritage Grant totaling \$519,500 with an equal in cash and in-kind local contributions. Such contribution was \$150,000 from the City's General Fund, Yavapai County contribution of \$126,000 and the remainder in donations from local business.

The City of Cottonwood received voter authorization of the Alternative Expenditure Limit, allowing the City Council to set the spending limit in budget years 05-06, thru 08-09. The limitation provides for a balanced budget using total available resources to cover all anticipated expenditures.

The City of Cottonwood Employee Benefits Trust has instituted a Short-term Disability program for all classified employees. This program is to assist employees through financial hardship until they are ready to return to work or until Long-term Disability benefits take over through the Arizona State Retirement System.

The Community Development Department secured \$814,500 in Community Development Block Grants (CDBG) dedicated to such projects as transitional housing, housing rehabilitation, and assistance to the Senior Citizens Center and the Old Town Mission. These projects have a direct benefit to the local community and surrounding areas.

These projects are a small illustration of the time and commitment put forth by City staff and crews during this and each fiscal year. I would like to extend my appreciation to the City Council for its dedication and personally thank them for the support they have given me. To the members of the various boards and commissions, I extend my sincerest gratitude for their valuable service to the community. Finally, I want to thank the City Manager, the department heads, and their staff. In my opinion, they continue to be among the finest, most professional and dedicated individuals with which I have had the privilege of working. I enthusiastically look forward to the challenges that lie ahead. With the cooperation of our fine staff, dedicated volunteers and citizens of our City and City Council, I believe we can keep on accomplishing great things together in the coming year.

Respectfully,

A handwritten signature in dark ink, appearing to read "Ruben Jauregui", written in a cursive style.

Ruben Jauregui
Mayor

December 29, 2005

Honorable Mayor, City Council and Citizens of Cottonwood, Arizona:

We are pleased to submit to you the 2005 Comprehensive Annual Financial Report (CAFR) of the City of Cottonwood, Arizona (City). The report was prepared by the City Manager and Finance Department.

This report consists of management's representations concerning the finances of the City to its governing body, constituents, investors, and creditors. Copies of this report will be sent to elected officials, bond rating agencies, Nationally Recognized Municipal Securities Information Repositories, and other agencies that have expressed an interest in the City's financial matters. Copies of this financial report will also be placed in the City Clerks office and at the City's Public Library for use by the general public.

Management has full responsibility for the accuracy of the presented data as well as the completeness and fairness of the presentations including all disclosures. The City has established and maintains a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Cottonwood's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). We believe the data, as presented in this report, is accurate in all material respects and is presented in a manner which fairly sets forth the financial position and results of operations of the City on both a city-wide and fund basis. In addition, we believe that all disclosures necessary to assist the reader to gain an understanding of the City's financial activity and financial stability have been included.

The City of Cottonwood's financial statements have been audited by the independent firm of Cronstrom, Trbovich & Osuch, certified public accountants and their report included herein, has audited the basic financial statements and related notes. As stated in the independent auditors' report, the goal of the independent audit was to provide reasonable assurance that the City of Cottonwood's financial statements for the fiscal year ending June 30, 2005 are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Cottonwood's financial statements for the fiscal year ending June 30, 2005, are fairly presented in all material respects, in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Cottonwood was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Cottonwood's separately issued Single Audit Report.

The Comprehensive Annual Financial Report is presented in three sections.

- ◆ The Introductory Section includes a list of principal officials, an organizational chart, and this transmittal letter that highlights significant aspects of the City and particular financial issues.
- ◆ The Financial Section includes the independent auditor's report, Management's Discussion and Analysis, the basic financial statements (government-wide statements and fund statements), notes to the basic financial statements, other Required Supplementary Information (RSI), combining financial statements and other financial schedules.
- ◆ The Statistical Section includes exhibits and tables of unaudited data depicting the financial history of the City, as well as demographic and other miscellaneous statistics, generally presented on a multi-year basis.

THE FINANCIAL REPORTING ENTITY

The community of Cottonwood was settled in 1879 and named after the tall stands of cottonwood trees. The first settlers were ranchers utilizing the fertile grasslands along the Verde River to feed their herds. Cottonwood developed as a farming and ranching community to support the nearby copper mining industry in Clarkdale and Jerome. The City was incorporated in 1960 as the Town of Cottonwood. In 1987, the voters approved a name change from Town to City.

The City of Cottonwood is situated in central Arizona bordering the Verde River to its north. The total geographic area is 15.75 square miles. Cottonwood is near the geographic center of Arizona near Interstate 17 on State Highways 89A and 260. The 2000 Census places the population at 9,179. Cottonwood is the retail and services center for upper Verde Valley area. More recent estimates show a population of 10,665 for 2005. The main industries are tourism, government services, retail and education.

The City of Cottonwood, Arizona has a Council-Manager form of government consisting of the Mayor and six Council Members. The Mayor is elected directly by the voters and serves a four-year term. The voters elect six City Council representatives for staggered four-year terms. The City Council is vested with policy and legislative authority and is responsible for passing ordinances, adopting the budget, appointing committee, commission, and board members, and appointing the positions of City Manager, and Magistrate Judge. The City Council appoints a City Manager who is responsible for carrying out the policies and ordinances of the City Council, as well as overseeing the general administrative operations of the various departments within the city.

The City of Cottonwood, Arizona provides a full range of municipal services, including law enforcement and fire suppression. Other services include road maintenance, park and recreational services, regulation of building and zoning codes, animal control, and a public library. Cottonwood offers community facilities including a swimming pool, civic center, weight room, and community parks. The City also operates and maintains a water/wastewater utility, a cemetery, and a municipal airport.

FINANCIAL CONTROLS

Internal Controls

As earlier noted, the management of the City of Cottonwood, Arizona is responsible for establishing and maintaining a system of internal control. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding;

- 1) Safeguarding of assets against loss from unauthorized use or disposition, and
- 2) Reliability of financial records for preparing financial statements and maintaining accountability for assets.

The City's internal accounting controls are considered adequate to safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary Controls

The budget process is always a cyclical process. A "beginning point" is the preparation of the base budget by each department head. These budgets are based on expenditures to date and the previous year's experience. The department's base budgets, along with any requests for new positions, programs or services are then presented to the City Manager. City management then meets with each department head to review their base budget and requests for new services and/or programs. Once management has reviewed the department's requests, a tentative budget is presented to the City Council by the City Manager in June.

In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1, to the City Council. The budget includes proposed expenditures and the means of financing them. The City is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the city to spend more than budgeted revenues plus the carryover unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. All appropriations lapse at year-end requiring actual fund balances to be re-budgeted each fiscal year.

The City operates under the voter approved alternative expenditure limitation. The electorate, on May 17, 2005, authorized the City in accordance with Arizona Revised Statutes, to establish a local annual expenditure limitation each fiscal year for the next four fiscal years. The City sets the annual expenditure limitation for all fund types as a whole with the adoption of the annual budget.

To ensure compliance with the state imposed expenditure limitation, a uniform expenditure report must be filed with the state each year. This report reconciles total City expenditures from the audited financial statements to total expenditures for reporting in accordance with the state's uniform expenditure reporting system (ARS Section 41-1279.07). Public hearings on the budget are held each year in accordance with legal requirements in order to obtain comments from local taxpayers.

The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within the department. Transfers of appropriations between departments, however, require City Council approval. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 34 as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund with appropriated annual budgets, this comparison is presented following the general fund budget for all major special revenue funds and in the combining section for all other funds.

LOCAL ECONOMIC CONDITION AND OUTLOOK

Cottonwood continues to face many significant growth issues, but its citizens, governing body, and municipal government are committed to finding solutions for each of the issues. This strong commitment to the community has made 2005 a successful year, and will provide for future success.

Economic Outlook

Retail Sales. The City of Cottonwood relies heavily on city sales tax. Overall, city sales tax revenues provide approximately 45.5% of the General Fund revenues. The city's sales tax rate is currently at 2.2% (split between General Fund 1.0%, Library Debt Service Fund .2% and Wastewater Debt Service Fund 1.0%), and the City also has a 2% Bed Tax (occupancy).

State Shared Revenues. The City of Cottonwood receives significant revenue allocations from the State. These "State Shared Revenues" include allocations of the state-collected income tax, sales tax, fuel tax and motor vehicle-in-lieu taxes. All but the fuel tax is placed in the City's General Fund, where it is used to sustain a large portion of the City's day-to-day activities. The fuel tax is placed in the Highway User Revenue Fund (HURF) to be used specifically for street maintenance and construction, as well as supporting our local transit system. In recent years, the state legislature has reduced the formula distribution of state-shared revenues to cities. The state shared revenue formulas generally allocate revenues based on official census data. (Last census: Year 2000).

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

For the Year

The following depicts the continued commitment of the City of Cottonwood to make the community a better place to live. Fiscal year 2004-05 goals obtained are summarized within this list of accomplishments:

Physical Development:

- ◆ Successful acquisition of three of the local water companies, Clemenceau Water, Cordes Lake Water, and Verde Santa Fe Water Companies.
- ◆ Completion of the Old Town – Main Street Streetscape project. This project topped off aesthetic improvements through the Old Town commercial district. The nearly \$1million construction project was 75 percent funded through a federal transportation enhancement grant.
- ◆ Began construction phase to the new Little League Ball Park Complex at Riverfront Park – Obtained approximately \$145,000 in in-kind donations for the new facility.
- ◆ Completed Phase One of the SR 260 Annexation Area Sewer/Design project.

Community and Economic Development:

- ◆ Completion of the Old Town Mission and Transitional Housing renovations.
- ◆ Review and inspection of 287 private development projects.
- ◆ Maintained the Checkpoint Deviation service by adding half hour morning service from 8:30-10:30.
- ◆ Completed the Transitional Housing and Old Town Mission projects.

General:

- ◆ Hired new Municipal Court Judge and began correcting the deficiencies within the Municipal Court.
- ◆ Continued the updating of the City Employee Manual.
- ◆ Received voter authorization of the Alternative Expenditure Formula, allowing the City Council to set the spending limit in budget years 05-06 through 08-09.
- ◆ The Cottonwood Employee Benefits Trust instituted a Short-Term Disability program for all classified employees to assist them financially until Long-term Disability begins through the Arizona State Retirement System.
- ◆ Received the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA) for the seventh consecutive year.
- ◆ Submitted the City's Comprehensive Annual Financial Report to the Government Finance Officers Association's (GFOA) to compete for the Certificate of Achievement in Excellence in Financial Reporting for the 14th year.
- ◆ Implemented Storm Water Management Plan.

For the Future

The following goals have been identified and included within the budget. These goals, established during budget planning sessions with the City Council, are integrated into departmental work plans for fiscal year 2005-06.

Physical Development:

- ◆ Complete the acquisition of the final local water companies and incorporate them into one municipal water facility.
- ◆ Complete the bidding and initiate the construction phase of library expansion.
- ◆ Continue the street resurfacing program for the streets throughout the community.
- ◆ Initiate the construction phase of the new City cemetery.
- ◆ Continue planning and analysis stage for the proposed Multi-Generational Center. Work with Architectural Firm of Barker Rinker Seacat to establish adopted site location and establish a firm commitment from potential collaborators and major corporate sponsors.
- ◆ Implementation of an arsenic remediation system to comply with new federally mandated lower arsenic levels.
- ◆ Construct reclaimed water fill stations for public use.
- ◆ Complete the construction of a new little league park facility that will include three fields with lighting, concession stand, public restrooms, 2nd floor observation deck and all new field infrastructure.

Community and Economic Development:

- ◆ Continue with the current CDBG grants, both of which are housing or rehabilitation related.
- ◆ The Cottonwood Area Transit System (CATS) will be adding one additional van to their fleet to reduce the time between scheduled routes.
- ◆ Initiate a Self-Help Housing program.

Public Safety:

- ◆ Continue hiring of additional Police and Fire personnel to expand our first responders staffing.
- ◆ Upgrading the fleet to improve officer safety.

OTHER MATTERS

Employee Pension Plans

The City maintains two employee pension plans. The general employee plan is administered through Arizona State Retirement System (ASRS). The Arizona Public Safety Personnel Retirement System administers the Public Safety pension plans. Both the employee and the employer make contributions directly to these organizations. Financial information about these plans can be found in Note 4.D. of the notes to the basic financial statements included in the financial section of this report.

Debt Administration

The following table is a summary of the City's outstanding debt at June 30, 2005 of \$20.6 million.

Purpose of debt	Outstanding Balance	Annual Debt Service
Water and Wastewater		
FmHA Sewer Refunding Bonds	\$ 870,000	\$ 453,000
Sewer Refunding Bonds	225,000	138,800
Water Infrastructure Finance Authority - WIFA	2,000,000	1,109,800
Water Utility - Municipal Facilities Revenue Bonds	<u>13,580,000</u>	<u>394,163</u>
Total Water and Wastewater	<u>\$ 16,675,000</u>	<u>\$ 2,095,763</u>
Library		
General Obligation Bonds	\$ 510,000	\$ 77,805
FmHA Library Refunding Bonds	<u>480,000</u>	<u>76,500</u>
Total Library	<u>\$ 990,000</u>	<u>\$ 154,305</u>
Other		
Street Improvement Bonds	\$ 565,000	\$ 305,838
Railroad Wash GADA	625,000	97,495
Public Safety Building GADA	<u>1,790,000</u>	<u>262,935</u>
Total Other	<u>2,980,000</u>	<u>666,268</u>
Total Long-term Debt	<u>\$ 20,645,000</u>	<u>\$ 2,916,336</u>

Cash Management

The Finance Director manages the City's investment portfolio with the assistance of external investment advisement and ensures compliance with the City's Investment Policy. The City's investment policy is to invest public funds with maximum security in a manner that will provide the highest return while meeting the daily cash flow demands of the City and conforming to all applicable State statutes. The primary objectives, in priority order, are safety of principal, liquidity, and attaining a market rate of return.

The City is permitted to invest in certificates of deposit, interest bearing savings accounts in banks, and the State of Arizona's Local Government Investment Pool.

Temporary idle cash during the year was invested in the State Treasurer's Investment Pool. For further information on the City's investments, please refer to Note 3.A.1. of the notes to the basic financial statements.

Risk Management

The City is exposed to various risks of loss related to public and property liability and worker's compensation. Public liability includes public officials' errors and omissions, automobile and general liability. The City participates in the Arizona Municipal Risk Retention Pool. The policy insures up to \$2,000,000 per incident plus excess liability of up to \$8,000,000. Coverage is provided on a claim made basis with a \$25,000 deductible. Auto is on an occurrence basis with a \$1,000 deductible on liability.

The Finance Office administers the City's liability insurance program. Worker's Compensation claims are reviewed by the Human Resources Department and handled through Arizona Municipal Workers Compensation Pool.

The City of Cottonwood has an aggressive safety program, which promotes employee safety on the job and focuses on risk control techniques designed to minimize accident related losses.

OTHER INFORMATION

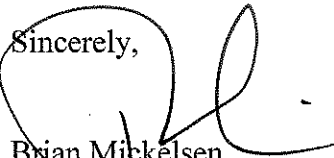
Award

The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Cottonwood, Arizona for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. This is the 14th consecutive year that the City of Cottonwood has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily read and efficiently organized comprehensive annual financial report. That report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year only. We believe our current Comprehensive Annual Financial Report (CAFR) continues to meet the Certificate of Achievement program's requirements, we are submitting it to the GFOA to determine its eligibility for a certificate.

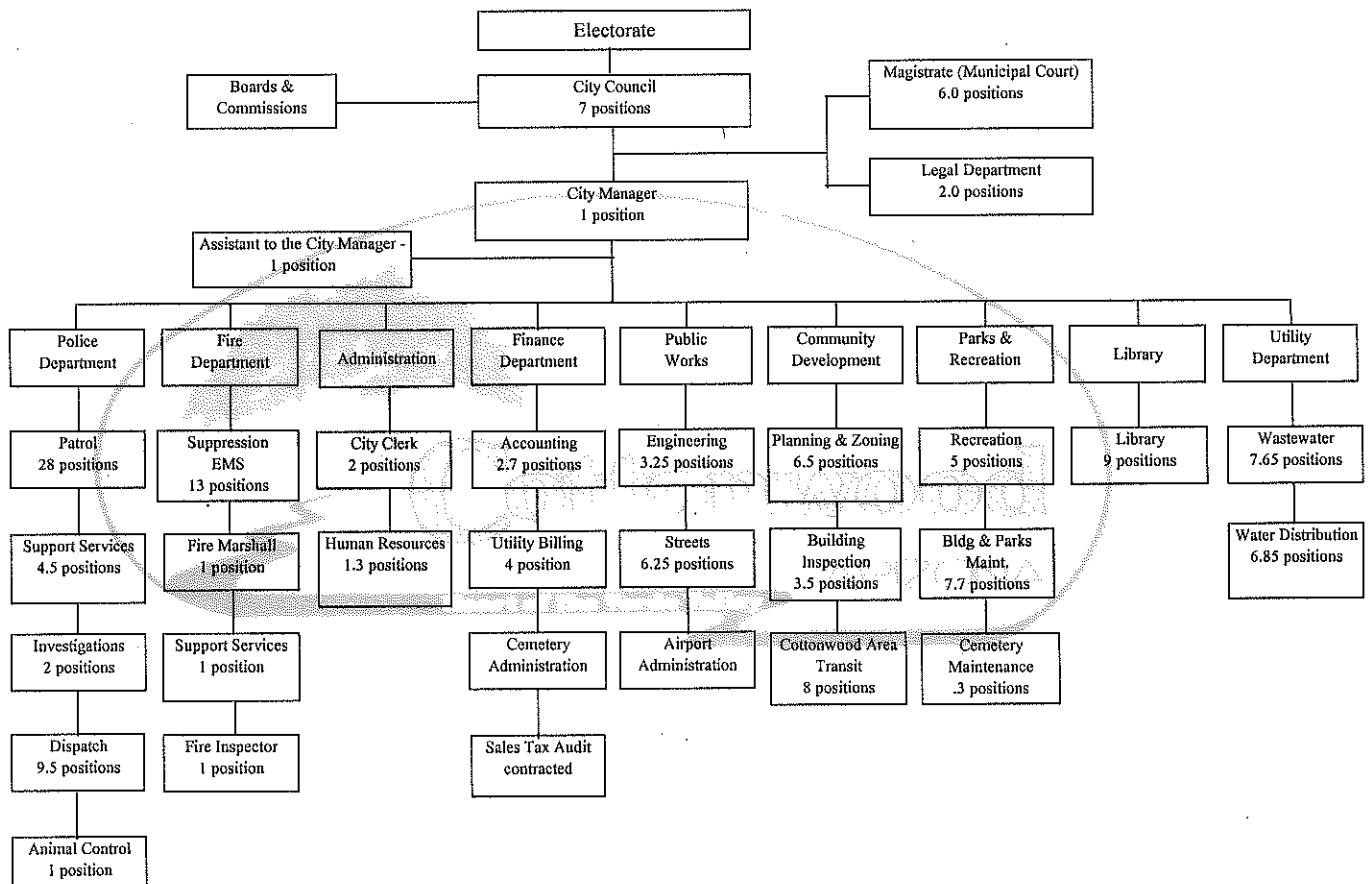
Acknowledgments

The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the dedication of City Manager staff, and Finance Department. We also wish to thank all the department heads and members of the City Council for their interest and support in planning and conducting the financial affairs of the City in a responsible and progressive manner.

Sincerely,

Brian Mickelsen
City Manager


Jesus R. Rodriguez
Finance Director

ORGANIZATIONAL CHART



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Cottonwood,
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Zielke

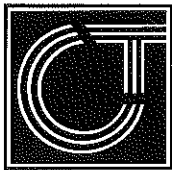
President

Jeffrey R. Emery

Executive Director

FINANCIAL SECTION

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CRONSTROM, TRBOVICH & OSUCH

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and the City Council of the
City of Cottonwood

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood (City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial reports contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General and Highway User Revenue Fund (HURF) for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 17 - 25 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 68 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cronstrom, Trbovich & Osuch, P.C.

Cronstrom, Trbovich & Osuch, P.C.

December 29, 2005

Management's Discussion and Analysis

We (the City of Cottonwood (City)) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2005. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if the City's financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on our debt and operation. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letters of transmittal, which can be found on pages 1-10 of this report. When referring to prior year data in this analysis we included information from last years' audited financial reports.

Financial Highlights

- ◆ The assets of the City of Cottonwood exceeded its liabilities at the close of the most recent fiscal year by \$50,941,631 (net assets). Of this amount \$6,962,214 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the City of Cottonwood's governmental funds reported combined ending fund balances of \$15,037,558, an increase of \$1,475,933 in comparison with the prior year.
- ◆ At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,749,476 or 36 percent of total general fund expenditures.
- ◆ General fund revenues (on a budgetary basis) fell short of budgeted revenues by \$(200,373) for fiscal year 2005. Additionally, budgetary basis expenditures were 102% (\$147,455 or 2% over) of the final budget in the General Fund.
- ◆ General Fund revenues exceeded expenditures by \$774,792; a positive variance of \$347,828 from the final budget.
- ◆ The City includes one separate legal entity in its report - a Municipal Property Corporation. Although legally separate, the "component unit" is important because the City is financially accountable for it. A description of the Cottonwood Municipal Property Corporation is available in Note 1 on page 43. Separate Financial Statements are not prepared for this entity.

Overview of the Financial Statements

The financial section of the Comprehensive Annual Financial Report (CAFR) for the City of Cottonwood consists of this discussion and analysis, the basic financial statements and the required supplementary schedules presented after the basic financial statements. The basic financial statements include the government-wide financial statements, fund financial statements, including the budgetary statements for the general fund and major special revenue funds, and notes to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Cottonwood's finances, in a manner similar to private-sector business.

The statement of net assets presents information on all of the City of Cottonwood's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the City of Cottonwood is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. Changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Cottonwood that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Cottonwood include general government, public safety, highways and streets, culture and recreation, and redevelopment and housing. The business-type activities include the operations of the sewer plant and the water system.

The government-wide financial statements can be found on pages 28 - 29 of this report.

Fund financial statements. Also presented are the traditional fund financial statements for governmental funds. The fund financial statements focus on major funds of the City, rather than fund type, which was the criteria used in the old model. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Cottonwood, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Cottonwood can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Since the governmental fund financial statements focus on near-term spendable resources, while the governmental activities on the government-wide financial statements have a longer term focus, a reconciliation of the differences between the two is provided.

The basic governmental fund financial statements can be found on pages 30 - 35 of this report.

Proprietary funds. The City of Cottonwood maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Cottonwood uses enterprise funds to account for its operations of the sewer plant and water system. *Internal service funds* are an accounting device used to accumulate and allocate costs among the City of Cottonwood's various functions. The City of Cottonwood uses an internal service fund to account for some employee benefits, including flexible spending accounts and dependent care reimbursement for certain employees and their dependents. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer Fund and Water Fund, which are considered to be a major funds of the City. The internal service fund is presented in the proprietary fund financial statements as a separate column.

The basic proprietary fund financial statements can be found on pages 36 - 39 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Cottonwood's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 40 - 41 of this report.

Notes to the basic financial statements. The notes to the basic financial statements (pages 43 - 66) provide additional information that is essential to obtain a full understanding of the data provided in the government-wide and fund financial statements and should be read in conjunction with the financial statements.

Required supplementary information other than MD&A. Governments have an option of including the budgetary comparison statements for the general fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information following the notes to the basic financial statements. The City has chosen to present these budgetary statements as part of the basic financial statements. Additionally, governments are required to disclose certain information about employee pension funds. The City has disclosed this information in Note 4.D. to the basic financial statements.

Government-Wide Financial Analysis

Net assets may serve over time as useful indicators of a government's financial position. The following table reflects the condensed Statement of Net Assets of the City for June 30, 2005 showing that assets exceeded liabilities by \$50,941,631.

City of Cottonwood
Condensed Statement of Net Assets
June 30, 2005

	Governmental Activities		Business-type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Assets						
Current and other assets	\$ 18,965,558	\$ 16,968,473	\$ 9,430,698	\$ 2,277,467	\$ 28,396,256	\$ 19,245,940
Capital assets						
Non-depreciable	2,209,759	3,562,117	2,957,166	2,829,326	5,166,925	6,391,443
Depreciable (net)	<u>18,903,441</u>	<u>16,612,785</u>	<u>24,061,164</u>	<u>17,402,997</u>	<u>42,964,605</u>	<u>34,015,782</u>
Total assets	<u>40,078,758</u>	<u>37,143,375</u>	<u>36,449,028</u>	<u>22,509,790</u>	<u>76,527,786</u>	<u>59,653,165</u>
Liabilities						
Other liabilities	3,686,186	3,153,382	502,534	14,361	4,188,720	3,167,743
Noncurrent liabilities						
Due within one year	2,471,494	2,394,585	259,405	11,442	2,730,899	2,406,027
Due in more than one year	<u>5,257,842</u>	<u>7,426,899</u>	<u>13,408,694</u>	<u>471</u>	<u>18,666,536</u>	<u>7,427,370</u>
Total liabilities	<u>11,415,522</u>	<u>12,974,866</u>	<u>14,170,633</u>	<u>26,274</u>	<u>25,586,155</u>	<u>13,001,140</u>
Net assets						
Invested in capital assets, net of related debt	11,768,874	8,734,998	19,861,056	20,232,323	31,629,930	28,967,321
Restricted	12,240,292	10,392,167	109,195	-	12,349,487	10,392,167
Unrestricted	<u>4,654,070</u>	<u>5,041,344</u>	<u>2,308,144</u>	<u>2,251,193</u>	<u>6,962,214</u>	<u>7,292,537</u>
Total net assets	<u>\$ 28,663,236</u>	<u>\$ 24,168,509</u>	<u>\$ 22,278,395</u>	<u>\$ 22,483,516</u>	<u>\$ 50,941,631</u>	<u>\$ 46,652,025</u>

Net assets consist of three components. The largest portion of the City of Cottonwood's net assets (62%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, wastewater system, and vehicles, machinery and equipment), less any outstanding related debt used to acquire those assets. The City of Cottonwood uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Cottonwood's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Cottonwood's net assets (24%) represents resources that are subject to external restrictions. The remaining balance of unrestricted net assets (\$6,962,214) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Cottonwood is able to report positive balances in all three categories of net assets for the government as a whole.

City of Cottonwood, Arizona
Changes in Net Assets
For the Fiscal Year Ended June 30, 2005

	Governmental Activities		Business-type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues						
Fees, fines and charges for services	\$ 1,439,106	\$ 1,277,646	\$ 2,867,811	\$ 1,365,152	\$ 4,306,917	\$ 2,642,798
Operating grants and contributions	1,312,060	1,757,041	-	-	1,312,060	1,757,041
Capital grants and contributions	1,801,971	607,633	-	-	1,801,971	607,633
General revenues						
Local taxes	8,066,396	7,262,398	-	-	8,066,396	7,262,398
Impact fees	-	-	292,026	462,773	292,026	462,773
State shared revenues	2,309,728	2,179,761	-	-	2,309,728	2,179,761
Investment earnings	304,066	201,095	111,345	37,509	415,411	238,604
Other	-	-	490	1,407	490	1,407
Total revenues	<u>15,233,327</u>	<u>13,285,574</u>	<u>3,271,672</u>	<u>1,866,841</u>	<u>18,504,999</u>	<u>15,152,415</u>
Expenses						
General government	3,391,797	3,165,670	-	-	3,391,797	3,165,670
Public safety	3,955,040	3,754,576	-	-	3,955,040	3,754,576
Highways and streets	1,756,480	1,178,261	-	-	1,756,480	1,178,261
Culture and recreation	1,188,433	1,219,169	-	-	1,188,433	1,219,169
Redevelopment and housing	12,895	59,157	-	-	12,895	59,157
Interest on long-term debt	433,955	521,391	-	-	433,955	521,391
Sewer	-	-	1,829,552	1,756,288	1,829,552	1,756,288
Water	-	-	1,647,241	-	1,647,241	-
Total expenses	<u>10,738,600</u>	<u>9,898,224</u>	<u>3,476,793</u>	<u>1,756,288</u>	<u>14,215,393</u>	<u>11,654,512</u>
Change in net assets	4,494,727	3,387,350	(205,121)	110,553	4,289,606	3,497,903
Net assets, beginning of year	<u>24,168,509</u>	<u>20,781,159</u>	<u>22,483,516</u>	<u>22,372,963</u>	<u>46,652,025</u>	<u>43,154,122</u>
Net assets, end of year	<u>\$ 28,663,236</u>	<u>\$ 24,168,509</u>	<u>\$ 22,278,395</u>	<u>\$ 22,483,516</u>	<u>\$ 50,941,631</u>	<u>\$ 46,652,025</u>

Governmental and business-type activities. Net assets for the governmental activities increased over the prior year by \$4.5 million. As in the prior year, the City recorded a net increase in the operations of its governmental funds. The increase is part of the City's fiscal management policy to spend within the budget limits and carryover spending to future years. Additionally, during the year, the City recorded a significant increase in local sales tax revenues. Capital grants also accounted for a significant portion of the current year increase. The capital grants increase included federal and state grants for park improvements, airport improvements and redevelopment and housing funded by several Community Development Block Grants. The related expenses were capitalized and are not currently reflected in net assets. The assets will be depreciated over the useful life of the assets; and will therefore, be expensed over future periods.

Expenses of the governmental activities did not significantly increase in any function. The expenses generally increased as a result of salary increases and small allowances for inflation. The interest on long-term debt decreased due a reduction in the outstanding principal balance on long-term debt.

The activity of the Sewer Fund did not significantly change during the fiscal year; however, the City purchased several water companies during the fiscal year accounting for the increased charges for services and the separate line item expense for Water. The water companies' infrastructure was financed through the issuance of outstanding bonds. The purchase did not include the acquisition of the water companies' outstanding receivables or payables; the purchase consisted solely of infrastructure and included goodwill of \$1,474,221, which is recorded as other assets in the City's basic financial statements.

Financial Analysis of the City's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund. The General Fund, Highway User Special Revenue Fund, Debt Service Fund and Capital Projects Fund are considered to be major funds.

As of the end of the current fiscal year the City's governmental funds reported combined ending fund balances of \$15,037,558, an increase of \$1,475,933 in comparison with the prior year. Approximately 18% of this total amount (\$2,758,093) constitutes general fund balance, which is available for contribution to the designated, undesignated and reserved fund balance. At fiscal year-end 2004-2005 fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2003-04
General Fund	\$ 2,758,093	\$ (260,721)
Highway User Revenue Fund (HURF)	-	(43,706)
Debt Service Fund	10,905,003	1,725,348
Capital Projects Fund	1,245,289	32,777
Nonmajor Governmental Funds	129,173	22,235

The General Fund is the chief operating fund of the City of Cottonwood. As a measure of the general fund's liquidity, it may be useful to compare both general fund balance and total fund balance to total fund expenditures. General Fund balance represents 36% of total general fund expenditures, while total fund balance represents 108% of total fund expenditures.

The more significant changes in fund balance were in the General and Debt Service Funds. The General Fund increased \$774,792 (before transfers) largely due to increased sales tax revenues. The sales tax revenues are the result of increased consumer spending related to tourism and weekend visitors. After transfers the General Fund reported a decrease of \$260,721. The most significant transfers from the General Fund included subsidizing the Highway User Revenue Fund, matching grant funds and funding debt service due on outstanding bonded indebtedness and loans. The City Council recently approved a 1% construction sales tax that will help support the Highway User Revenue Fund in future years.

The Debt Service Fund increased largely due to an increase in local sales tax revenues as previously discussed. The Town's local sales tax collections allocated to the Debt Service Fund are far exceeding the outstanding bonded indebtedness. Those allocations are subject to City Council approval and may be adjusted in future years.

General Fund budgetary highlights

During the fiscal year, the City amended its original budget by \$3,205,550 in the General Fund. The amendment included changes to revenues, expenditures and fund balance. Significant differences between the original budget and the final amended budget were as follows:

- ◆ Budgeted revenues increased a total of \$390,865.
- ◆ The most significant expenditure budget amendment was a reduction in the City Council budget from \$2,544,060 to \$474,525. The reduction of the City Council budget is primarily due to the decrease in budgeted reserves of \$1,961,405. Other reductions represented projects that were moved from the current year budget to the 2005-06 budget. Those items included \$78,480 in reimbursements for the construction of Rodeo Drive and \$20,000 in the planning of a new cemetery. The City Council also reduced its contingency reserves by \$6,800. Other minor adjustments were made in preparation of the final budget that were not significant.
- ◆ The Public Safety expenditure budget decreased by a net amount of \$521,875 primarily due to budget reductions of \$344,815 and \$105,905 in the Police and Fire Departments, respectively. Those reductions resulted from grants that did not come to fruition and benefits and staffing costs.
- ◆ The budget for transfers decreased from the original budget by a net \$76,860. The following budgetary transfer adjustments are primarily responsible for the difference. A transfer to the Library was reduced by \$71,470 and the Cemetery did not need all its programmed funding. The net effect of the changes in the General Fund transfers to other funds resulted in the variance between the original and revised budget.

Projected revenues were less than actual revenues during the current fiscal year by \$200,373. The increase was not significant and related most significantly to better than expected sales tax revenues, offset by less than budgeted other revenues and more than budgeted licenses and permits. The sales tax revenues have been discussed previously. The licenses and permits are the result of the recent real estate boom that has since slowed down. The licenses and permits included permits for new homes and renovations.

Actual expenditures exceeded the budget by \$147,455 largely due to unspent budget contingencies in the City council department.

Capital Asset and Debt Administration

The City's capital assets for its governmental activities as of June 30, 2005 totalled \$21,113,200 (net of accumulated depreciation), a net increase of 4.7% from the prior year. Business-type activities capital assets amounted to \$27,018,330 (net of accumulated depreciation), an increase from the prior year of 33.5%. For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Governmental fund financial statements record capital asset purchases as expenditures. See Note 3.A.4. in the Notes to the Basic Financial Statements for further information regarding capital assets.

Major capital asset events during the current fiscal year included the following:

- ◆ For the governmental funds, the City continued a \$1 million Old Town renovation project.
- ◆ For the governmental funds, the City contributed \$100,000 for the remodeling of an old warehouse to a multi-function senior center.
- ◆ For the governmental funds, approximately \$213,000 worth of street improvements were completed.
- ◆ For the business-type activities, the City purchased three of four local water companies for \$7,796,400, of which \$1,474,221 was capitalized as other assets for goodwill.

The following table provides a breakdown of the capital assets of the City at June 30, 2005 and 2004.

Capital Assets at June 30, 2005
(Net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 1,231,372	\$ 1,163,543	\$ 2,814,205	\$ 2,814,205	\$ 4,045,577	\$ 3,977,748
Construction in progress	978,387	2,398,574	142,961	15,121	1,121,348	2,413,695
Water distribution system	-	-	6,964,177	-	6,964,177	-
Wastewater system	-	-	14,213,042	14,554,514	14,213,042	14,554,514
Buildings and improvements	7,791,335	8,086,712	2,618,604	2,727,754	10,409,939	10,814,466
Infrastructure	9,227,126	6,646,728	-	-	9,227,126	6,646,728
Vehicles, machinery and equipment	<u>1,884,980</u>	<u>1,879,345</u>	<u>265,341</u>	<u>120,729</u>	<u>2,150,321</u>	<u>2,000,074</u>
	<u>\$21,113,200</u>	<u>\$20,174,902</u>	<u>\$27,018,330</u>	<u>\$20,232,323</u>	<u>\$48,131,530</u>	<u>\$40,407,225</u>

Long-term debt

At the end of the current fiscal year, the City of Cottonwood had total bonded debt outstanding of \$2,650,000. The City issued \$13,580,000 in revenue bonds to purchase three of four water companies. The City's outstanding debt is recorded as part of governmental activities and includes refunding and improvement general obligation bonds and various loans payable.

The State imposes certain debt limitations on the City of six percent (6%) and twenty percent (20%) of the outstanding assessed valuation of the City. The City's available debt margin at June 30, 2005 is \$4,995,440 in the 6% capacity and \$16,651,467 in the 20% capacity. Additional information on the debt limitations and capacities may be found in the statistical section of this report (page 89).

The City also has \$4,415,000 in loans payable and \$174,326 in capital leases outstanding at June 30, 2005 in the governmental activities.

The following schedule shows the outstanding debt of the City (both current and long-term) as of June 30, 2005 and 2004. Further detail on the City's outstanding debt may be found in Note 3.D on pages 59 - 61.

Outstanding Debt at June 30, 2005

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 2,650,000	\$ 3,515,000	\$ -	\$ -	\$ 2,650,000	\$ 3,515,000
Revenue bonds	-	-	13,651,239	-	13,651,239	-
Loans payable	4,415,000	5,655,000	-	-	4,415,000	5,655,000
Capital leases	174,326	219,904	-	-	174,326	219,904
Compensated absences	<u>490,010</u>	<u>431,580</u>	<u>16,860</u>	<u>11,913</u>	<u>506,870</u>	<u>443,493</u>
	<u>\$ 7,729,336</u>	<u>\$ 9,821,484</u>	<u>\$ 13,668,099</u>	<u>\$ 11,913</u>	<u>\$ 21,397,435</u>	<u>\$ 9,833,397</u>

Economic Factors and Next Year's Budgets and Rates

The City is close to striking a deal for the purchase of an additional water company which it anticipates will come to fruition mid-January 2006. Other factors were considered during the City's budgeting process, but were determined not to have a material affect on the 2005 budget.

Financial Contact

This financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to:

City of Cottonwood
Accounting Department
816 North Main Street
Cottonwood, Arizona 86326
(928) 634-0060

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Basic Financial Statements

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Totals
Assets			
Cash and cash equivalents	\$ 14,856,388	\$ 5,265,315	\$ 20,121,703
Cash with paying agent	2,335,507	1,350,913	3,686,420
Receivables			
Accounts receivable	118,710	375,383	494,093
Taxes receivable	969,957	-	969,957
Intergovernmental receivable	644,909	-	644,909
Notes receivable	21,475	-	21,475
Inventories	10,692	-	10,692
Prepaid items	7,920	-	7,920
Deferred charges	-	811,482	811,482
Restricted assets	-	181,226	181,226
Other assets	-	1,446,379	1,446,379
Capital assets			
Non-depreciable	2,209,759	2,957,166	5,166,925
Depreciable (net)	<u>18,903,441</u>	<u>24,061,164</u>	<u>42,964,605</u>
Total assets	<u>40,078,758</u>	<u>36,449,028</u>	<u>76,527,786</u>
Liabilities			
Accounts payable	930,853	11,271	942,124
Accrued wages and benefits	397,533	14,082	411,615
Interest payable	230,507	394,163	624,670
Intergovernmental payable	-	10,987	10,987
Deferred revenue	21,475	-	21,475
Customer deposits payable	818	72,031	72,849
Matured debt principal payable	2,105,000	-	2,105,000
Noncurrent liabilities			
Due within one year	2,471,494	259,405	2,730,899
Due in more than one year	<u>5,257,842</u>	<u>13,408,694</u>	<u>18,666,536</u>
Total liabilities	<u>11,415,522</u>	<u>14,170,633</u>	<u>25,586,155</u>
Net assets			
Invested in capital assets, net of related debt	11,768,874	19,861,056	31,629,930
Restricted for			
Debt service	10,995,003	-	10,995,003
Capital outlay	1,245,289	-	1,245,289
Replacement and extension	-	109,195	109,195
Unrestricted	<u>4,654,070</u>	<u>2,308,144</u>	<u>6,962,214</u>
Total net assets	<u>\$ 28,663,236</u>	<u>\$ 22,278,395</u>	<u>\$ 50,941,631</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets	
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Functions/Programs						
Governmental activities						
General government	\$ 3,391,797	\$ 1,061,751	\$ 37,650	\$ 1,221,390	\$ (1,071,006)	\$ (1,071,006)
Public safety	3,955,040	136,062	165,490	-	(3,653,488)	(3,653,488)
Highways and streets	1,756,480	112,414	988,725	239,815	(415,526)	(415,526)
Culture and recreation	1,188,433	128,879	120,195	-	(939,359)	(939,359)
Redevelopment and housing	12,895	-	-	340,766	327,871	327,871
Interest on long-term debt	433,955	-	-	-	(433,955)	(433,955)
Total governmental activities	<u>10,738,600</u>	<u>1,439,106</u>	<u>1,312,060</u>	<u>1,801,971</u>	<u>(6,185,463)</u>	<u>(6,185,463)</u>
Business-type activities						
Sewer	1,829,552	1,537,397	-	-	\$ (292,155)	(292,155)
Water	<u>1,647,241</u>	<u>1,330,414</u>	<u>-</u>	<u>-</u>	<u>(316,827)</u>	<u>(316,827)</u>
Total business-type activities	<u>3,476,793</u>	<u>2,867,811</u>	<u>-</u>	<u>-</u>	<u>(608,982)</u>	<u>(608,982)</u>
Totals	<u>\$ 14,215,393</u>	<u>\$ 4,306,917</u>	<u>\$ 1,312,060</u>	<u>\$ 1,801,971</u>	<u>(6,185,463)</u>	<u>(6,794,445)</u>
General revenues						
Taxes						
Sales taxes					7,865,948	7,865,948
Franchise taxes					200,448	200,448
Impact fees					-	292,026
State urban revenue sharing - unrestricted					843,803	843,803
State sales tax revenue sharing - unrestricted					850,346	850,346
Auto lieu tax revenue sharing - unrestricted					615,579	615,579
Investment earnings					304,066	415,411
Other					-	490
Total general revenues					<u>10,680,190</u>	<u>11,084,051</u>
Change in net assets					4,494,727	4,289,606
Net assets, beginning of year					<u>24,168,509</u>	<u>22,483,516</u>
Net assets, end of year					<u>\$ 28,663,236</u>	<u>\$ 22,278,395</u>
						<u>\$ 50,941,631</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	HURF	Debt Service	Capital Projects	Nonmajor Governmental Funds	Totals
Assets						
Cash and cash equivalents	\$ 2,876,038	\$ -	\$ 10,381,971	\$ 1,238,391	\$ 118,415	\$ 14,614,815
Cash with paying agent	-	99,421	2,236,086	-	-	2,335,507
Receivables						
Accounts receivable	46,380	-	46,017	6,898	19,174	118,469
Taxes receivable	492,942	-	477,015	-	-	969,957
Intergovernmental receivable	135,164	276,891	-	-	232,854	644,909
Notes receivable	21,475	-	-	-	-	21,475
Due from other funds	408,272	-	-	-	-	408,272
Inventories	697	9,995	-	-	-	10,692
Prepaid items	7,920	-	-	-	-	7,920
Total assets	<u>\$ 3,988,888</u>	<u>\$ 386,307</u>	<u>\$ 13,141,089</u>	<u>\$ 1,245,289</u>	<u>\$ 370,443</u>	<u>\$ 19,132,016</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 828,598	\$ -	\$ -	\$ -	\$ 102,255	\$ 930,853
Accrued wages and benefits	380,722	9,213	-	-	7,598	397,533
Interest payable	-	9,421	221,086	-	-	230,507
Due to other funds	-	277,673	-	-	130,599	408,272
Deferred revenue	21,475	-	-	-	-	21,475
Customer deposits payable	-	-	-	-	818	818
Matured debt principal payable	-	90,000	2,015,000	-	-	2,105,000
Total liabilities	<u>1,230,795</u>	<u>386,307</u>	<u>2,236,086</u>	<u>-</u>	<u>241,270</u>	<u>4,094,458</u>
Fund balances						
Reserved for inventories	697	-	-	-	-	697
Reserved for prepaid items	7,920	-	-	-	-	7,920
Reserved for debt service	-	-	5,061,148	-	-	5,061,148
Unreserved	2,749,476	-	5,843,855	1,245,289	-	9,838,620
Unreserved, reported in nonmajor:						
Special revenue funds	-	-	-	-	129,173	129,173
Total fund balances	<u>2,758,093</u>	<u>-</u>	<u>10,905,003</u>	<u>1,245,289</u>	<u>129,173</u>	<u>15,037,558</u>
Total liabilities and fund balances	<u>\$ 3,988,888</u>	<u>\$ 386,307</u>	<u>\$ 13,141,089</u>	<u>\$ 1,245,289</u>	<u>\$ 370,443</u>	<u>\$ 19,132,016</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2005

Fund balances - total governmental funds \$ 15,037,558

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental capital assets	32,109,063
Less accumulated depreciation	<u>(10,995,863)</u>
Capital assets used in governmental activities	<u>21,113,200</u>

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.

General obligation bonds	(2,650,000)
Loans payable	(4,415,000)
Capital leases	(174,326)
Compensated absences	<u>(490,010)</u>
Long-term liabilities not due and payable in the current period	<u>(7,729,336)</u>

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

241,814

Net assets of governmental activities \$ 28,663,236

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General	HURF	Debt Service	Capital Projects	Nonmajor Governmental Funds	Totals
Revenues						
Taxes						
Sales taxes	\$ 4,216,237	\$ -	\$ 3,649,711	\$ -	\$ -	\$ 7,865,948
Franchise taxes	200,448	-	-	-	-	200,448
Intergovernmental	2,479,153	2,036,200	-	3,468	901,223	5,420,044
Fines and forfeitures	188,403	-	-	-	-	188,403
Licenses and permits	514,256	-	-	-	-	514,256
Charges for services	656,594	129,807	-	-	345	786,746
Rents and royalties	7,855	-	-	-	71,077	78,932
Contributions and donations	3,715	-	-	-	-	3,715
Investment earnings	104,842	16,414	145,320	34,150	257	300,983
Other	28,709	11,297	-	-	31,444	71,450
Total Revenues	<u>8,400,212</u>	<u>2,193,718</u>	<u>3,795,031</u>	<u>37,618</u>	<u>1,004,346</u>	<u>15,430,925</u>
Expenditures						
Current						
General government	3,151,460	-	-	-	139,871	3,291,331
Public safety	3,888,439	-	-	-	-	3,888,439
Highways and streets	-	2,243,320	-	-	333,346	2,576,666
Culture and recreation	585,521	-	-	-	1,061,819	1,647,340
Redevelopment and housing	-	-	-	-	7,420	7,420
Debt service						
Principal retirement	-	90,000	2,015,000	-	-	2,105,000
Interest on long-term debt	-	18,842	415,113	-	-	433,955
Capital outlay	-	-	-	4,841	-	4,841
Total Expenditures	<u>7,625,420</u>	<u>2,352,162</u>	<u>2,430,113</u>	<u>4,841</u>	<u>1,542,456</u>	<u>13,954,992</u>
Excess (deficiency) of revenues over expenditures	<u>774,792</u>	<u>(158,444)</u>	<u>1,364,918</u>	<u>32,777</u>	<u>(538,110)</u>	<u>1,475,933</u>
Other financing sources (uses)						
Transfers in	23,490	114,738	360,430	-	583,835	1,082,493
Transfers out	(1,059,003)	-	-	-	(23,490)	(1,082,493)
Total other financing sources (uses)	<u>(1,035,513)</u>	<u>114,738</u>	<u>360,430</u>	<u>-</u>	<u>560,345</u>	<u>-</u>
Net change in fund balances	(260,721)	(43,706)	1,725,348	32,777	22,235	1,475,933
Fund balances, beginning of year	<u>3,018,814</u>	<u>43,706</u>	<u>9,179,655</u>	<u>1,212,512</u>	<u>106,938</u>	<u>13,561,625</u>
Fund balances, end of year	<u>\$ 2,758,093</u>	<u>\$ -</u>	<u>\$ 10,905,003</u>	<u>\$ 1,245,289</u>	<u>\$ 129,173</u>	<u>\$ 15,037,558</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds \$ 1,475,933

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	2,063,360
Less current year depreciation	<u>(1,125,062)</u>
Excess capital expenditures over depreciation	<u>938,298</u>

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Principal payments on long-term debt	2,150,578
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Net increase in compensated absences	(58,430)
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues of the internal service fund are reported with governmental activities.

Change in net assets of governmental activities	<u>\$ 4,494,727</u>
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The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes				
Sales taxes	\$ 3,886,740	\$ 4,052,320	\$ 4,216,237	\$ 163,917
Franchise taxes	187,250	187,020	200,448	13,428
Intergovernmental	2,544,910	2,440,095	2,479,153	39,058
Fines and forfeitures	164,590	218,510	188,403	(30,107)
Licenses and permits	340,080	581,660	514,256	(67,404)
Charges for services	666,350	647,960	656,594	8,634
Rents and royalties	5,900	5,900	7,855	1,955
Contributions and donations	3,200	4,620	3,715	(905)
Investment earnings	50,600	90,750	104,842	14,092
Other	360,100	371,750	28,709	(343,041)
Total Revenues	<u>8,209,720</u>	<u>8,600,585</u>	<u>8,400,212</u>	<u>(200,373)</u>
Expenditures				
Current				
General government				
Administration	313,010	345,440	340,068	5,372
Personnel	142,210	158,170	182,034	(23,864)
City council	2,544,060	474,525	446,068	28,457
Water resource project	18,750	15,945	14,354	1,591
Finance department	238,560	240,940	255,988	(15,048)
Planning and zoning	393,010	368,820	344,876	23,944
Municipal court	214,900	239,800	259,458	(19,658)
Legal	145,500	161,500	185,811	(24,311)
Maintenance	473,010	444,620	453,070	(8,450)
Custodial service	131,400	131,080	127,572	3,508
Non-departmental	312,600	317,790	313,099	4,691
Engineering	227,460	217,300	229,062	(11,762)
Total general government	<u>5,154,470</u>	<u>3,115,930</u>	<u>3,151,460</u>	<u>(35,530)</u>
Public safety				
Police department	2,486,790	2,141,975	2,212,123	(70,148)
Fire department	1,111,020	1,005,115	1,017,841	(12,726)
Building inspection	152,290	139,870	148,783	(8,913)
Animal control	75,430	86,125	90,235	(4,110)
Communications	488,780	419,350	419,457	(107)
Total public safety	<u>4,314,310</u>	<u>3,792,435</u>	<u>3,888,439</u>	<u>(96,004)</u>
Culture and recreation				
Parks and recreation	475,350	432,760	426,694	6,066
City pool	89,580	88,660	104,938	(16,278)
Weightroom	52,560	48,180	53,889	(5,709)
Total culture and recreation	<u>617,490</u>	<u>569,600</u>	<u>585,521</u>	<u>(15,921)</u>
Total Expenditures	<u>10,086,270</u>	<u>7,477,965</u>	<u>7,625,420</u>	<u>(147,455)</u>
Excess (deficiency) of revenues over expenditures	<u>(1,876,550)</u>	<u>1,122,620</u>	<u>774,792</u>	<u>(347,828)</u>
Other financing sources (uses)				
Transfers in	23,490	23,490	23,490	-
Transfers out	(1,036,240)	(959,380)	(1,059,003)	(99,623)
Total other financing sources (uses)	<u>(1,012,750)</u>	<u>(935,890)</u>	<u>(1,035,513)</u>	<u>(99,623)</u>
Net change in fund balances	(2,889,300)	186,730	(260,721)	(447,451)
Fund balances, beginning of year	<u>2,889,300</u>	<u>3,018,820</u>	<u>3,018,814</u>	<u>(6)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 3,205,550</u>	<u>\$ 2,758,093</u>	<u>\$ (447,457)</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
HURF FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental	\$ 1,958,628	\$ 2,082,205	\$ 2,036,200	\$ (46,005)
Charges for services	82,224	110,315	129,807	19,492
Investment earnings	4,500	13,000	16,414	3,414
Other	<u>1,600</u>	<u>27,600</u>	<u>11,297</u>	<u>(16,303)</u>
Total Revenues	<u>2,046,952</u>	<u>2,233,120</u>	<u>2,193,718</u>	<u>(39,402)</u>
Expenditures				
Current				
Highways and streets	2,497,060	2,276,830	2,243,320	33,510
Debt Service				
Principal retirement	-	-	90,000	(90,000)
Interest on long-term debt	<u>-</u>	<u>-</u>	<u>18,842</u>	<u>(18,842)</u>
Total Expenditures	<u>2,497,060</u>	<u>2,276,830</u>	<u>2,352,162</u>	<u>(75,332)</u>
Excess (deficiency) of revenues over expenditures	<u>(450,108)</u>	<u>(43,710)</u>	<u>(158,444)</u>	<u>(114,734)</u>
Other financing sources (uses)				
Transfers in	<u>-</u>	<u>-</u>	<u>114,738</u>	<u>114,738</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>114,738</u>	<u>114,738</u>
Net change in fund balances	(450,108)	(43,710)	(43,706)	4
Fund balances, beginning of year	<u>159,470</u>	<u>43,710</u>	<u>43,706</u>	<u>(4)</u>
Fund balances, end of year	<u>\$ (290,638)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Fund</u>
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	
Assets				
Current assets				
Cash and cash equivalents	\$ 2,383,403	\$ 2,881,912	\$ 5,265,315	\$ 241,573
Cash with paying agent	-	1,350,913	1,350,913	-
Receivables, net				
Accounts receivable	213,388	161,995	375,383	241
Deferred charges	-	811,482	811,482	-
Restricted assets	<u>109,195</u>	<u>72,031</u>	<u>181,226</u>	<u>-</u>
Total current assets	2,705,986	5,278,333	7,984,319	241,814
Noncurrent assets				
Other assets	-	1,446,379	1,446,379	-
Capital assets				
Non-depreciable	2,877,305	79,861	2,957,166	-
Depreciable (net)	<u>16,983,751</u>	<u>7,077,413</u>	<u>24,061,164</u>	<u>-</u>
Total assets	<u>22,567,042</u>	<u>13,881,986</u>	<u>36,449,028</u>	<u>241,814</u>
Liabilities				
Current liabilities				
Accounts payable	9,485	1,786	11,271	-
Accrued wages and benefits	5,338	8,744	14,082	-
Interest payable	-	394,163	394,163	-
Intergovernmental payable	-	10,987	10,987	-
Customer deposits payable	-	72,031	72,031	-
Compensated absences	11,658	4,779	16,437	-
Bonds payable	<u>-</u>	<u>242,968</u>	<u>242,968</u>	<u>-</u>
Current liabilities	26,481	735,458	761,939	-
Noncurrent liabilities				
Compensated absences	423	-	423	-
Bonds payable	<u>-</u>	<u>13,408,271</u>	<u>13,408,271</u>	<u>-</u>
Total liabilities	<u>26,904</u>	<u>14,143,729</u>	<u>14,170,633</u>	<u>-</u>
Net assets				
Invested in capital assets, net of related debt	19,861,056	-	19,861,056	-
Restricted for				
Replacement and extension	109,195	-	109,195	-
Unrestricted	<u>2,569,887</u>	<u>(261,743)</u>	<u>2,308,144</u>	<u>241,814</u>
Total net assets	<u>\$ 22,540,138</u>	<u>\$ (261,743)</u>	<u>\$ 22,278,395</u>	<u>\$ 241,814</u>

The notes to the basic financial statements are an integral part of this statement

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	
Operating revenues				
Charges for services	\$ <u>1,532,600</u>	\$ <u>1,314,993</u>	\$ <u>2,847,593</u>	\$ <u>1,304</u>
Total operating revenues	<u>1,532,600</u>	<u>1,314,993</u>	<u>2,847,593</u>	<u>1,304</u>
Operating expenses				
Costs of sales and services	1,248,125	916,252	2,164,377	16,039
Depreciation and amortization	<u>581,427</u>	<u>305,982</u>	<u>887,409</u>	-
Total operating expenses	<u>1,829,552</u>	<u>1,222,234</u>	<u>3,051,786</u>	<u>16,039</u>
Operating income (loss)	<u>(296,952)</u>	<u>92,759</u>	<u>(204,193)</u>	<u>(14,735)</u>
Nonoperating revenues (expenses)				
Impact fees	292,026	-	292,026	-
Capacity fees	4,797	15,522	20,319	-
Investment earnings	56,261	55,084	111,345	3,083
Interest expense	-	(425,007)	(425,007)	-
Other	<u>490</u>	<u>(101)</u>	<u>389</u>	-
Total nonoperating revenues (expenses)	<u>353,574</u>	<u>(354,502)</u>	<u>(928)</u>	<u>3,083</u>
Change in net assets	56,622	(261,743)	(205,121)	(11,652)
Total net assets, beginning of year	<u>22,483,516</u>	<u>-</u>	<u>22,483,516</u>	<u>253,466</u>
Total net assets, end of year	<u>\$ 22,540,138</u>	<u>\$ (261,743)</u>	<u>\$ 22,278,395</u>	<u>\$ 241,814</u>

The notes to the basic financial statements are an integral part of this statement

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	
Cash flows from operating activities				
Receipts from customers	\$ 1,417,280	\$ 1,163,985	\$ 2,581,265	\$ 1,174
Payments to suppliers	(985,148)	(793,913)	(1,779,061)	(16,039)
Payments to employees	(262,347)	(107,030)	(369,377)	-
Customer deposits	-	72,031	72,031	-
Other nonoperating receipts (expenses)	490	(101)	389	-
Net cash flows from operating activities	<u>170,275</u>	<u>334,972</u>	<u>505,247</u>	<u>(14,865)</u>
Cash flows from noncapital financing activities				
Cash received from (paid to) other funds for interfund borrowing	-	-	-	-
Impact fees	292,026	-	292,026	-
Capacity fees	<u>4,797</u>	<u>15,522</u>	<u>20,319</u>	<u>-</u>
Net cash flows from noncapital financing activities	<u>296,823</u>	<u>15,522</u>	<u>312,345</u>	<u>-</u>
Cash flows from capital and financing activities				
Proceeds from capital debt	-	13,654,207	13,654,207	-
Issuance costs paid	-	(845,294)	(845,294)	-
Purchases of capital assets	(210,160)	(7,435,414)	(7,645,574)	-
Other receipts (payments)	<u>-</u>	<u>(1,474,221)</u>	<u>(1,474,221)</u>	<u>-</u>
Net cash flows from capital and related financing activities	<u>(210,160)</u>	<u>3,899,278</u>	<u>3,689,118</u>	<u>-</u>
Cash flows from investing activities				
Investment earnings	<u>56,261</u>	<u>55,084</u>	<u>111,345</u>	<u>3,083</u>
Net cash flows from investing activities	<u>56,261</u>	<u>55,084</u>	<u>111,345</u>	<u>3,083</u>
Net change in cash and cash equivalents	313,199	4,304,856	4,618,055	(11,782)
Cash and cash equivalents, beginning of year	<u>2,179,399</u>	<u>-</u>	<u>2,179,399</u>	<u>253,355</u>
Cash and cash equivalents, end of year	<u>\$ 2,492,598</u>	<u>\$ 4,304,856</u>	<u>\$ 6,797,454</u>	<u>\$ 241,573</u>
Reconciliation of cash and cash equivalents to the statement of net assets				
Cash and cash equivalents	\$ 2,383,403	\$ 2,881,912	\$ 5,265,315	\$ 241,573
Cash with paying agent	-	1,350,913	1,350,913	-
Restricted assets	<u>109,195</u>	<u>72,031</u>	<u>181,226</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 2,492,598</u>	<u>\$ 4,304,856</u>	<u>\$ 6,797,454</u>	<u>\$ 241,573</u>

The notes to the basic financial statements are an integral part of this statement

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Business-type Activities - Enterprise Fund</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (296,952)	\$ 92,759	\$ (204,193)	\$ (14,735)
Depreciation and amortization	581,427	305,982	887,409	-
Other nonoperating receipts (expenses)	490	(101)	389	-
Change in assets/liabilities:				
Receivables	(115,320)	(161,995)	(277,315)	(130)
Accounts payable	9,485	1,786	11,271	-
Intergovernmental payable	-	10,987	10,987	-
Accrued wages and benefits	(9,023)	8,744	(279)	-
Compensated absences	168	4,779	4,947	-
Customer deposits payable	-	72,031	72,031	-
Net cash provided (used) for operating activities	<u>\$ 170,275</u>	<u>\$ 334,972</u>	<u>\$ 505,247</u>	<u>\$ (14,865)</u>

Noncash Investing, Capital and Financing Activities

During the fiscal year ended June 30, 2005, the City amortized \$33,812 of bond issue costs, \$2,968 of bond premiums and \$27,842 of goodwill.

The notes to the basic financial statements are an integral part of this statement

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Firemen Pension Trust
Assets	
Cash and cash equivalents	\$ 109,366
Receivables, net	
Intergovernmental receivable	<u>7,395</u>
Total assets	<u>116,761</u>
Net Assets	
Held in trust	<u>\$ 116,761</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Firemen Pension Trust
Additions	
Contributions	
Employer	\$ 5,621
Employee	5,621
State fire premium	<u>27,392</u>
Total additions	<u>38,634</u>
Investment earnings	
Investment earnings	<u>23,559</u>
Total additions	<u>62,193</u>
Deductions	
Benefits	<u>36,559</u>
Total deductions	<u>36,559</u>
Change in net assets	25,634
Net assets, beginning of year	<u>91,127</u>
Net assets, end of year	<u>\$ 116,761</u>

The notes to the basic financial statements are an integral part of this statement.

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CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the City of Cottonwood (City) have been prepared in conformity with U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the City's more significant accounting policies follows.

A. Reporting entity

The City is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations.

Included within the reporting entity:

Cottonwood Municipal Property Corporation. The Cottonwood Municipal Property Corporation's (CMPC) board of directors consists of three members which are appointed by the Cottonwood City Council. The CMPC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the City in obtaining financing for various projects of the City. The City has a "moral obligation" for the repayment of the Cottonwood Municipal Property Corporation's bonds. The CMPC is reported as a debt service fund.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF COTTONWOOD, ARIZONA
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Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of general long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Funds.

Property taxes, intergovernmental grants and aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The *Highway User Revenue Fund (HURF)* accounts for the City's share of state taxes on gasoline, diesel fuels and other transportation related fees to be used solely for street and highway purposes. Eligible expenditures include the cost of right-of-way acquisitions, construction, reconstruction, maintenance, repair, roadside development of city roads, streets and bridges and the payment of the interest principal on highway and street bonds.

CITY OF COTTONWOOD, ARIZONA
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The *Debt Service Fund* accounts for the accumulation of resources for and the payment of long-term debt principal, interest and related costs.

The *Capital Projects Fund* accounts for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

The City reports the following major proprietary funds:

The *Sewer Fund* is used to account for the activities of the City's sewer operations.

The *Water Fund* is used to account for the activities of the City's water operations.

Additionally, the City reports the following fund types:

The *Internal Service Fund* includes only the activity of the Employee Benefit Trust Fund (EBT). The EBT Fund accounts for the City's partially self-funded health and accident insurance program for certain City employees and their dependents. The EBT has been inactive since fiscal year 2002-03 after the City moved its required health insurance pool. All remaining funds will be used to supplement employee benefits. Accordingly, there are no actual claims or estimated claims payable at June 30, 2005.

The *Firemen Pension Trust Fund* accounts for the activities of the Firefighters' Relief and Pension Trust Fund (Fireman Pension Trust Fund), which accumulates funds for the defined contribution pension plan administered by the City and a board of trustees for the City's volunteer firefighters.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Amounts reported as program revenues include 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds. Operating expenses for the internal service fund include the cost of insurance premiums and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, for governmental activities it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. For business-type activities, the use of restricted resources is governed by the applicable bond covenants.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

The City maintains separate bank accounts for each of its funds. All expenditures of the City are made out of the General Fund's operations account (except for the Employee Benefit Internal Service Fund). An interfund receivable is recorded in the General Fund and an interfund payable is recorded in the applicable fund. At the end of the month, the interfund receivables and payables are liquidated.

State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

2. Receivables

Receivables of the governmental activities represent amounts due from the federal and state government for federal, state and local grants and state revenue sharing. Other receivables include franchise fees and other miscellaneous receivables. The receivables of the business-type activities represent uncollected customer billings.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

3. Short-term interfund receivables/payables

During the course of operations, individual funds within the City's pooled cash accounts may borrow money from the other funds within the pool on a short-term basis. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the fund financial statements and are eliminated in the preparation of the government-wide financial statements.

4. Inventories and prepaid items

Inventories consist of expendable supplies held for consumption. Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories are recorded as expenditures at the time of purchase in the fund financial statements.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted assets

Certain proceeds of the City's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

6. Other assets

Other assets consist of goodwill. Goodwill is any excess of the cost of an acquired entity over the amounts assigned to assets acquired. Goodwill is presented as a separate line item in the financial statements. Amortization is provided on a straight-line basis over the estimated useful life of 40 years.

7. Capital assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
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General infrastructure assets acquired prior to July 1, 2002 are not reported in the basic financial statements. Those assets will be transitioned to capital assets over the next three fiscal years in accordance with GASB Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis for state and local governments.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings	15-40 years
Improvements other than buildings	8-40 years
Infrastructure	20 years
Machinery and equipment	5-25 years
Vehicles	5-8 years

8. Compensated absences

The liability for compensated absences reported in the government-wide and proprietary statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

9. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
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10. Net assets

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because capital assets make up a significant portion of total net assets. Restricted net assets account for the portion of net assets restricted by parties outside the City. Unrestricted net assets are the remaining net assets not included in the previous two categories.

11. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1, to the City Council. The operating budget includes proposed expenditures and the means of financing them.
2. The City operates under the voter approved alternative expenditure limitation. The electorate authorized the City, in accordance with Arizona Revised Statutes, to establish a local annual expenditure limitation each fiscal year. The City sets the annual expenditure limitation for all fund types as a whole with the adoption of the annual budget.
3. Public hearings on the budget are held each year in accordance with legal requirements in order to obtain comments from local taxpayers.
4. To ensure compliance with the State imposed expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total City expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. Section 41-1279.07).

CITY OF COTTONWOOD, ARIZONA
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5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole per State law. For management purposes, the City adopts a budget by department for each individual fund and establishes the legal level of local budgetary control at this level. The adopted budget cannot be amended in any way without City Council approval.
6. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Capital Projects and Debt Service Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures for financial reporting purposes.

The City is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the City to spend more than budgeted revenues plus the carryover unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The City complied with this law during the year.

No supplementary budgetary appropriations were necessary during the year.

B. Excess of expenditures over appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund:	
Personnel	\$ 23,864
Finance department	15,048
Municipal court	19,658
Legal	24,311
Maintenance	8,450
Engineering	11,762
Police department	70,148
Fire department	12,726
Building inspection	8,913
Animal control	4,110
Communications	107
City pool	16,278
Weightroom	5,709
HURF Fund	75,332
Nonmajor Funds:	
Library	16,851
CDBG	45,066

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
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C. Deficit fund equity

A deficit net assets in the amount of \$261,743 was reported in the Water Fund. The deficit resulted from the costs of the bond issuance and the the related interest due on the outstanding bonds and the substantial costs to repair one of the recently acquired water companies, which had some major deficiencies that were not apparent at acquisition. The City plans to recover the deficit over the next few years through user fees.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and investments

Deposits and investments at June 30, 2005 consist of the following:

Deposits	
Cash on hand	\$ 2,065
Cash in bank	3,546,345
Cash with trustee	296,080
Investments	
State Treasurer's Investment Pool	16,484,450
Cash with paying agent	3,686,420
Mutual funds	<u>83,355</u>
Total cash and investments	24,098,715
Less: Cash with paying agent	(3,686,420)
Fiduciary fund	(109,366)
Restricted assets	<u>(181,226)</u>
Total cash and cash equivalents	\$ <u>20,121,703</u>

Deposits - The City's deposits at June 30, 2005, were entirely covered by federal depository insurance or by collateral held by the City's custodial bank in the City's name.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

Investments - The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk. In addition, the mutual fund is not subject to custodial credit risk. However, the mutual funds are subject to interest rate risk as the mutual funds are exempt from the City's investment policy. The mutual funds have a maturity of less than one year.

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maturity of its investment portfolio to five years or less. Total investments greater than three years may not exceed 25% of the City's investment portfolio.

Credit risk. The City is empowered by statute to invest in the following types of securities. If an investment is not specifically listed in the suitable list, it is prohibited.

- 1) Fully insured or collateralized certificates of deposit and other evidence of deposit at banks and savings and loan associations;
- 2) Interest bearing savings accounts in banks and savings and loan institutions doing business in Arizona whose accounts are insured by federal deposit insurance;
- 3) Repurchase agreements with a maximum maturity of one hundred eighty days, collateralized at no less than 102 percent, provided a signed PSA Master Repurchase Agreement is on file with the counterpart bank or broker\dealer;
- 4) Deposits in the local government investment pool operated by the Treasurer of the State of Arizona;
- 5) Bonds or other evidences of indebtedness of the United States or any of its agencies or instrumentalities if the obligations are guaranteed as to principal and interest by the United States or by any agency of instrumentality of the United States;
- 6) Bonds or other evidences of indebtedness of this state or any of its counties, incorporated cities or towns, school districts, or municipal improvement districts which carry as a minimum one of the A ratings of Moody's Investors Service or one of the A ratings of Standard and Poor's Rating Service or their successors;
- 7) Commercial Paper with an A-1/P-1 rating or higher rating;
- 8) Mortgage-backed securities

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Concentration of credit risk. The City will diversify its investment portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification standards by security type and issuer shall not exceed the following:

- | | |
|---|------------------|
| 1) Fully insured or collateralized CD's | no more than 25% |
| 2) U.S. Treasuries and securities having principal and interest guaranteed by the U.S. Government or agencies or instrumentalities of the U.S. Government | 100 % |
| 3) State, county, school district and other district municipal bonds or debt with an A rating or better | no more than 25% |
| 4) Repurchase agreements | 100% |
| 5) Local Government Investment Pool | 100% |

The City complied with its investment policy related to its concentration of credit risk during the fiscal year ended June 30, 2005.

2. Restricted assets

Restricted assets in the Enterprise Fund at June 30, 2005 consisted of the following:

Replacement and extension	\$ 109,195
Customer deposits	<u>72,031</u>
Total restricted assets	<u>\$ 181,226</u>

The restricted cash for customer deposits is not included in restricted net assets as the restricted cash was included as part of the original bond issue and, therefore, is not included in net assets.

3. Other assets

During the fiscal year, the City acquired three water companies. The net excess of the cost of the acquired water companies over the amounts assigned to assets acquired is reported as goodwill. Amortization expense for the fiscal year was \$27,642.

	<u>Business-type Activities</u>
Goodwill	\$ 1,474,221
Less: Accumulated amortization	<u>(27,642)</u>
Total	<u>\$ 1,446,579</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
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The future estimated aggregate amortization expense as of June 30, 2005, were as follows:

Year Ending June 30,	<u>Business-type Activities</u>
2006	\$ 36,856
2007	36,855
2008	36,856
2009	36,855
2010	36,856
Thereafter	<u>1,262,301</u>
	<u>\$ 1,446,579</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
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4. Capital assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,163,543	\$ 67,829	\$ -	\$ 1,231,372
Construction in progress	<u>2,398,574</u>	<u>1,554,140</u>	<u>(2,974,327)</u>	<u>978,387</u>
Total capital assets, not being depreciated	<u>3,562,117</u>	<u>1,621,969</u>	<u>(2,974,327)</u>	<u>2,209,759</u>
Capital assets being depreciated:				
Buildings and improvements	11,255,256	589	-	11,255,845
Infrastructure	10,761,876	3,082,206	-	13,844,082
Vehicles, machinery and equipment	<u>4,466,454</u>	<u>332,923</u>	<u>-</u>	<u>4,799,377</u>
Total capital assets being depreciated	<u>26,483,586</u>	<u>3,415,718</u>	<u>-</u>	<u>29,899,304</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,168,544)	(295,966)	-	(3,464,510)
Infrastructure	(4,115,148)	(501,808)	-	(4,616,956)
Vehicles, machinery and equipment	<u>(2,587,109)</u>	<u>(327,288)</u>	<u>-</u>	<u>(2,914,397)</u>
Total accumulated depreciation	<u>(9,870,801)</u>	<u>(1,125,062)</u>	<u>-</u>	<u>(10,995,863)</u>
Total capital assets, being depreciated, net	<u>16,612,785</u>	<u>2,290,656</u>	<u>-</u>	<u>18,903,441</u>
Governmental activities capital assets, net	<u>\$ 20,174,902</u>	<u>\$ 3,912,625</u>	<u>\$ (2,974,327)</u>	<u>\$ 21,113,200</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,814,205	\$ -	\$ -	\$ 2,814,205
Construction in progress	<u>15,121</u>	<u>127,840</u>	<u>-</u>	<u>142,961</u>
Total capital assets, not being depreciated	<u>2,829,326</u>	<u>127,840</u>	<u>-</u>	<u>2,957,166</u>
Capital assets being depreciated:				
Water distribution system	-	7,214,110	-	7,214,110
Wastewater system	18,625,396	99,125	-	18,724,521
Buildings and improvements	3,769,507	613	-	3,770,120
Machinery, equipment and vehicles	<u>400,782</u>	<u>203,886</u>	<u>-</u>	<u>604,668</u>
Total capital assets being depreciated	<u>22,795,685</u>	<u>7,517,734</u>	<u>-</u>	<u>30,313,419</u>
Less accumulated depreciation for:				
Water distribution system	-	(249,933)	-	(249,933)
Wastewater system	(4,070,882)	(440,597)	-	(4,511,479)
Buildings and improvements	(1,041,753)	(109,763)	-	(1,151,516)
Machinery, equipment and vehicles	<u>(280,053)</u>	<u>(59,274)</u>	<u>-</u>	<u>(339,327)</u>
Total accumulated depreciation	<u>(5,392,688)</u>	<u>(859,567)</u>	<u>-</u>	<u>(6,252,255)</u>
Total capital assets, being depreciated, net	<u>17,402,997</u>	<u>6,658,167</u>	<u>-</u>	<u>24,061,164</u>
Business-type activities capital assets, net	<u>\$ 20,232,323</u>	<u>\$ 6,786,007</u>	<u>\$ -</u>	<u>\$ 27,018,330</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 338,835
Public safety	183,879
Highways and streets	487,191
Culture and recreation	<u>115,157</u>
Total depreciation expense-governmental activities	\$ <u>1,125,062</u>
Business-type activities:	
Wastewater	\$ 581,427
Water	<u>278,140</u>
Total depreciation expense-business-type activities	\$ <u>859,567</u>

5. Construction commitments

The City has active construction projects at June 30, 2005. The projects include infrastructure improvements. At fiscal year end the City's commitments with contractors were as follows:

Project	<u>Governmental Activities</u>	
	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Recreation Center	\$ 40,708	\$ 34,292
Riverfront Park	454,558	645,836
Airport Perimeter Fencing	130,131	34,595
Spillman System Upgrade	<u>252,477</u>	<u>25,097</u>
	\$ <u>877,874</u>	\$ <u>739,820</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
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B. Interfund receivables, payables and transfers

As of June 30, 2005 interfund receivable and payables were as follows:

Due To	Due From		
	HURF	Nonmajor Governmental Funds	Total
General Fund	\$ <u>277,673</u>	\$ <u>130,599</u>	\$ <u>408,272</u>

The above interfund receivables and payables are to cover short-term cash shortfalls.

Interfund transfers for the year ended June 30, 2005 consisted of the following:

Transfers To	Transfers Out		
	General Fund	Nonmajor Governmental Funds	Total
General Fund	\$ -	\$ 23,490	\$ 23,490
HURF Fund	114,738	-	114,738
Debt Service Fund	360,430	-	360,430
Nonmajor Governmental Funds	<u>583,835</u>	<u>-</u>	<u>583,835</u>
	\$ <u>1,059,003</u>	\$ <u>23,490</u>	\$ <u>1,082,493</u>

Transfers from the General Fund to the Debt Service Fund and Nonmajor Governmental Funds were for required principal and interest payments due on outstanding bonded indebtedness and subsidies to various special revenue funds. Transfers between the Nonmajor Governmental Funds and to the General Fund were recorded to repay the General Fund for airport tie-downs. The transfer from the General Fund to the HURF Fund was recorded to subsidize the HURF Fund during the current fiscal year.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2005

C. Obligations under capital leases

The City has entered into a lease agreement as lessee for financing the construction of the public safety building in the amount of \$361,212. The lease agreement qualifies as a capital lease for accounting purposes and; therefore, has been recorded at the net present value of the future minimum lease payments as of the inception date. Accordingly, the principal amount of the asset is capitalized in the government-wide statement of net assets.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Asset:	
Machinery and equipment	\$ 361,212
Less: accumulated depreciation	<u>(21,673)</u>
Total	<u>\$ 339,539</u>

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2005, were as follows:

Year Ending June 30,	<u>Governmental Activities</u>
2006	\$ 53,820
2007	53,819
2008	53,819
2009	<u>26,909</u>
Total minimum lease payments	188,367
Less: amount representing interest	<u>(14,041)</u>
Present value of minimum lease payments	<u>\$ 174,326</u>

D. Long-term obligations

The City has long-term bonds and loans payable issued to provide funds for the acquisition and construction of major capital facilities. The City has also issued debt to refund earlier obligations with higher interest rates. The debt is being repaid by various debt service funds and a portion of the 1993 MPC general obligation bond is being repaid by the Highway User Revenue Fund. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

Description	Interest Rate (%)	Maturity	Amount
Governmental Activities:			
General obligation bonds			
Project of 1992, Series A; original issue \$900,000	6.0-9.0	7/1/05-13	\$ 510,000
Project of 1992, Series B; original issue \$900,000	2.5	7/1/05-13	480,000
Sewer Refunding Bonds, Series 1990; original issue \$4,628,000	5.0	7/1/05-07	870,000
Sewer Refunding Bonds, Series 1992; original issue \$4,915,000	3.2-3.5	7/1/05-07	225,000
MPC Series 1993; original issue \$2,910,000	3.25-5.0	7/1/05-07	<u>565,000</u>
Total general obligation bonds			<u>\$ 2,650,000</u>
Loans payable			
Water Infrastructure Authority of Arizona (WIFA), Project of 1999	3.66	7/1/05-07	\$ 2,000,000
The Greater Arizona Development Authority (GADA), Project of 2000	5.0-6.0	8/1/05-14	625,000
The Greater Arizona Development Authority (GADA), Project of 2002	3.35-4.5	8/1/05-13	<u>1,790,000</u>
Total loans payable			<u>\$ 4,415,000</u>
Business-type Activities:			
Revenue bonds			
MPC Series 2004; original issue \$13,580,000	2.0-5.0	7/1/05-29	<u>\$ 13,580,000</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

Changes in long-term obligations for the year ended June 30, 2005 are as follows:

	<u>July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2005</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and loans payable:					
General obligation bonds	\$ 3,515,000	\$ -	\$ (865,000)	\$ 2,650,000	\$ 910,000
Loans payable	<u>5,655,000</u>	<u>-</u>	<u>(1,240,000)</u>	<u>4,415,000</u>	<u>1,260,000</u>
Total bonds and loans payable	<u>9,170,000</u>	<u>-</u>	<u>(2,105,000)</u>	<u>7,065,000</u>	<u>2,170,000</u>
Other liabilities:					
Capital leases	219,904	-	(45,578)	174,326	47,397
Compensated absences	<u>431,580</u>	<u>277,380</u>	<u>(218,950)</u>	<u>490,010</u>	<u>254,097</u>
Total other liabilities	<u>651,484</u>	<u>277,380</u>	<u>(264,528)</u>	<u>664,336</u>	<u>301,494</u>
Governmental activities long-term liabilities	<u>\$ 9,821,484</u>	<u>\$ 277,380</u>	<u>\$ (2,369,528)</u>	<u>\$ 7,729,336</u>	<u>\$ 2,471,494</u>
Business-type Activities:					
Revenue bonds	-	13,580,000	-	13,580,000	240,000
Deferred amount on premium	<u>-</u>	<u>74,207</u>	<u>(2,968)</u>	<u>71,239</u>	<u>2,968</u>
Total bonds payable	<u>-</u>	<u>13,654,207</u>	<u>(2,968)</u>	<u>13,651,239</u>	<u>242,968</u>
Other liabilities:					
Compensated absences	<u>11,913</u>	<u>12,136</u>	<u>(7,189)</u>	<u>16,860</u>	<u>16,437</u>
Business-type activities long-term liabilities	<u>\$ 11,913</u>	<u>\$ 13,666,343</u>	<u>\$ (10,157)</u>	<u>\$ 13,668,099</u>	<u>\$ 259,405</u>

Debt service requirements on long-term debt at June 30, 2005 are as follows:

Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 2,170,000	\$ 319,635	\$ 240,000	\$ 565,334
2007	2,225,000	227,160	300,000	560,534
2008	385,000	131,772	355,000	553,784
2009	415,000	113,938	410,000	544,909
2010	435,000	93,817	420,000	533,634
2011-15	1,435,000	147,103	2,310,000	2,459,733
2016-20	-	-	2,755,000	2,011,495
2021-25	-	-	3,405,000	1,368,290
2026-30	<u>-</u>	<u>-</u>	<u>3,385,000</u>	<u>433,500</u>
	<u>\$ 7,065,000</u>	<u>\$ 1,033,425</u>	<u>\$ 13,580,000</u>	<u>\$ 9,031,213</u>

During the year ended June 30, 2005, the City issued \$13,580,000 in MPC Senior Lein Water System Revenue Bonds, Series 2004, with an average interest rate of 3.736 percent. The net proceeds of \$13,654,207 (after payment of \$845,294 in underwriting fees, insurance, and other issuance costs) were used to acquire four water companies.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - OTHER INFORMATION

A. Risk management

The City of Cottonwood, is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the City is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$6,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the Pool to meet its expected financial obligations. The Pool has the authority to assess its members additional premiums should reserves and annual premiums be insufficient to meet the Pool's obligations.

The City is also insured by Arizona Municipal Workers Compensation Fund for potential worker related accidents.

In prior years the City of Cottonwood, Arizona established the City of Cottonwood Employee Benefit Trust (an internal service fund) to account for and finance its uninsured risks of loss for certain health and welfare benefits to eligible employees and their dependents. As of July 1, 2002, the Town discontinued the City of Cottonwood Employee Benefit Trust and as of June 30, 2004 no liability was outstanding for unpaid claims. A balance of \$291,278 was carried forward from fiscal year 2001-02 and will be used by the City to supplement employee benefits.

B. Contingent liabilities

Accumulated Sick Leave - Sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees and, therefore, are not accrued. Unvested accumulated sick leave of City employees at June 30, 2005, totaled \$605,359.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

C. Subsequent Events

Subsequent to June 30, 2005, the City plans to issue \$24,975,000 in Senior Lien Water Revenue Obligations, Series 2006. The Bonds will be issued for the purpose of acquiring the assets of a privately owned water company which will be sold by the Corporation to the City and will constitute the water utility system of the City, making initial improvements to the System, and funding a debt service reserve fund for the payment of the Bonds and the costs of issuance of the Bonds. The Bonds will bear interest semiannually on January 1 and July 1 of each year, commencing on July 1, 2006 and maturing on July 1, 2035. A portion of the assets will be purchased by the Town of Clarkdale, Arizona under an installment purchase. The City of Cottonwood, Arizona will be responsible for all outstanding debt.

D. Retirement plans

Arizona State Retirement System

Plan Description - The City contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The system is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rate. For the year ended June 30, 2005, active plan members and the City were each required by statute to contribute at the actuarially determined rate of 5.70 percent (5.20 percent retirement and 0.50 percent long-term disability) of the members' annual covered payroll. The City's contributions to the System for the years ended June 30, 2005, 2004, and 2003 were \$147,194, \$150,261, and \$70,125, respectively, which were equal to the required contributions for the year.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The City contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 1020 E. Missouri Ave., Phoenix, AZ 85014 or by calling (602) 255-5575.

Funding Policy - Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 9.87% and 10.21% of annual covered payroll for Police and Fire, respectively.

Annual Pension Cost - During the year ended June 30, 2005, the City of Cottonwood's annual pension cost of \$157,191 for police and \$29,177 for fire was equal to the City of Cottonwood's required and actual contributions.

The required contribution was determined as part of the June 30, 2005 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 6.0% (including inflation at 5.0%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

The actuarial value of the City of Cottonwood's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The City of Cottonwood's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2005, was 20 years.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2005

Three-Year Trend Information

Police

<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 115,075	100.0 %	\$ -
2004	141,214	100.0	-
2005	157,191	100.0	-

Three-Year Trend Information

Fire

<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 23,846	100.0 %	\$ -
2004	1,388	100.0	-
2005	29,177	100.0	-

Additional historical trend information for the City's PSPRS is disclosed on page 68.

Historical trend information is presented in order for the reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

Firefighters' Relief and Pension Fund

The Firefighters' Relief and Pension Fund known as the Cottonwood Fire Department Alternate Pension/Benefit Plan, is a defined contribution pension plan administered by the City and a board of trustees for the City's volunteer firefighters.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. According to the plan, a volunteer firefighter who has served twelve (12) months is eligible to participate. Normal retirement is the earlier of age 55 or 20 years of service. The employer contributions vest at twenty-five percent (25%) after three (3) years, six percent (6%) per year thereafter until the volunteer is 100% vested after fifteen (15) years. The monthly retirement benefit cannot exceed \$150, as determined by the Board of Trustees. Such pension, if paid, may be increased or decreased in amount, or discontinued at the discretion of the board of trustees. Pension and relief benefits may only be paid from the income of the trust fund. However, a firefighter who leaves the service without being eligible for retirement benefits is entitled to all previous deductions from his salary plus interest at a rate determined by the board of trustees. As established by state statute, in lieu of another acceptable pension plan, all volunteer firefighters must participate in the pension plan from the date they enter service.

Each volunteer must contribute 5.0% of covered compensation which is equally matched by the City. In addition, the State of Arizona is required by statute to contribute a portion of the annual tax received on fire insurance premiums. During the fiscal year ended June 30, 2005, the City's required contributions amounted to \$5,621, which equaled the firefighters' contributions. The State's contributions totaled \$27,392.

No pension provision changes occurred during the year that affected the required contributions to be made by the City or its volunteer firefighters.

The Firefighters' Relief and Pension Fund held no securities of the City or other related parties during the fiscal years or as of the close of the fiscal year.

Required Supplementary Information

CITY OF COTTONWOOD, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS

City of Cottonwood Police

<u>Valuation Date June 30,</u>	<u>Actuarial Value of Assets</u>	<u>Entry Age Actuarial Accrued Liability (AAL)</u>	<u>Percent Funded</u>	<u>Over(Under) funded AAL</u>	<u>Annual Covered Payroll</u>	<u>Over(Under) funded AAL as a Percentage of Covered Payroll</u>
1996	\$ 1,002,743	\$ 1,582,397	63.4 %	\$ (579,654)	\$ 595,750	(97.3)%
1997	1,256,155	1,821,788	69.0	(565,633)	676,078	(83.7)
1998	1,512,145	2,101,815	71.9	(589,670)	783,653	(75.2)
1999	1,769,288	2,387,442	74.1	(618,154)	747,786	(82.7)
2000	2,067,002	2,655,335	77.8	(588,333)	804,355	(73.1)
2001	2,403,802	2,658,241	90.4	(254,439)	890,648	(28.6)
2002	2,527,292	3,009,163	84.0	(481,871)	842,397	(57.2)
2003	2,548,790	3,440,889	74.1	(892,099)	906,147	(98.4)
2004	2,431,908	3,779,614	64.3	(1,347,706)	918,139	(146.8)
2005	2,497,767	4,390,060	56.9	(1,892,293)	997,849	(189.6)

City of Cottonwood Fire

<u>Valuation Date June 30,</u>	<u>Actuarial Value of Assets</u>	<u>Entry Age Actuarial Accrued Liability (AAL)</u>	<u>Percent Funded</u>	<u>Over(Under) funded AAL</u>	<u>Annual Covered Payroll</u>	<u>Over(Under) funded AAL as a Percentage of Covered Payroll</u>
1996	\$ 330,345	\$ 309,742	106.7 %	\$ 20,603	\$ 259,823	7.9 %
1997	436,338	396,868	109.9	39,470	298,598	13.2
1998	531,082	489,946	108.4	41,136	340,013	12.1
1999	564,635	501,955	112.5	62,680	284,695	22.0
2000	721,352	598,076	120.6	123,276	329,150	37.5
2001	1,004,674	605,870	165.8	398,804	403,507	98.8
2002	1,103,232	731,724	150.8	371,508	404,141	91.9
2003	1,226,743	885,324	138.6	341,419	473,311	72.1
2004	1,321,050	1,001,115	132.0	319,935	503,765	63.5
2005	1,400,258	1,603,091	87.3	(202,833)	566,772	(35.8)

* Information prior to 1996 is not available.

**Combining and Individual Fund
Statements and Schedules**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Library Fund - accounts for the City's public library activities.

Airport Fund - accounts for the City's airport rental and fuel sales revenues and the costs associated with the operation and maintenance of the municipal airport.

Grant Fund - accounts for Federal and State grants received by the City not required to be accounted for in a separate fund. Each grant has a specific project objective and the grant funds must be used for the stated purpose.

Community Development Block Grant (CDBG) - accounts for the City's CDBG grants, which are Federal funds to be used for the development of viable urban communities, decent housing and a suitable living environment, and expanded economic opportunities. Each grant has a specific project objective and the grant funds must be used for the stated purpose.

Cemetery Fund - accounts for the contribution received by the City for which principal and interest are to be used solely for the maintenance of the Cottonwood Cemetery.

CITY OF COTTONWOOD, ARIZONA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	Special Revenue					Total Nonmajor Governmental Funds
	Library	Airport	Grant	CDBG	Cemetery	
Assets						
Cash and cash equivalents	\$ 68,319	\$ 44,390	\$ -	\$ -	\$ 5,706	\$ 118,415
Receivables						
Accounts receivable	1,054	18,120	-	-	-	19,174
Intergovernmental receivable	-	-	130,599	102,255	-	232,854
Total assets	<u>\$ 69,373</u>	<u>\$ 62,510</u>	<u>\$ 130,599</u>	<u>\$ 102,255</u>	<u>\$ 5,706</u>	<u>\$ 370,443</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ 102,255	\$ -	\$ 102,255
Accrued wages and benefits	7,598	-	-	-	-	7,598
Due to other funds	-	-	130,599	-	-	130,599
Customer deposits payable	-	818	-	-	-	818
Total liabilities	<u>7,598</u>	<u>818</u>	<u>130,599</u>	<u>102,255</u>	<u>-</u>	<u>241,270</u>
Fund balances						
Unreserved	61,775	61,692	-	-	5,706	129,173
Total fund balances	<u>61,775</u>	<u>61,692</u>	<u>-</u>	<u>-</u>	<u>5,706</u>	<u>129,173</u>
Total liabilities and fund balances	<u>\$ 69,373</u>	<u>\$ 62,510</u>	<u>\$ 130,599</u>	<u>\$ 102,255</u>	<u>\$ 5,706</u>	<u>\$ 370,443</u>

CITY OF COTTONWOOD, ARIZONA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Special Revenue					Total Nonmajor Governmental Funds
	Library	Airport	Grant	CDBG	Cemetery	
Revenues						
Intergovernmental	\$ 120,218	\$ -	\$ 440,239	\$ 340,766	\$ -	\$ 901,223
Charges for services	-	345	-	-	-	345
Rents and royalties	-	71,077	-	-	-	71,077
Investment earnings	174	-	54	-	29	257
Other	25,954	-	-	-	5,490	31,444
Total Revenues	<u>146,346</u>	<u>71,422</u>	<u>440,293</u>	<u>340,766</u>	<u>5,519</u>	<u>1,004,346</u>
Expenditures						
Current						
General government	-	37,993	73,590	-	28,288	139,871
Highways and streets	-	-	-	333,346	-	333,346
Culture and recreation	632,526	-	429,293	-	-	1,061,819
Redevelopment and housing	-	-	-	7,420	-	7,420
Total Expenditures	<u>632,526</u>	<u>37,993</u>	<u>502,883</u>	<u>340,766</u>	<u>28,288</u>	<u>1,542,456</u>
Excess (deficiency) of revenues over expenditures	<u>(486,180)</u>	<u>33,429</u>	<u>(62,590)</u>	<u>-</u>	<u>(22,769)</u>	<u>(538,110)</u>
Other financing sources (uses)						
Transfers in	502,740	-	58,025	-	23,070	583,835
Transfers out	-	(23,490)	-	-	-	(23,490)
Total other financing sources (uses)	<u>502,740</u>	<u>(23,490)</u>	<u>58,025</u>	<u>-</u>	<u>23,070</u>	<u>560,345</u>
Net change in fund balances	16,560	9,939	(4,565)	-	301	22,235
Fund balances, beginning of year	<u>45,215</u>	<u>51,753</u>	<u>4,565</u>	<u>-</u>	<u>5,405</u>	<u>106,938</u>
Fund balances, end of year	<u>\$ 61,775</u>	<u>\$ 61,692</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,706</u>	<u>\$ 129,173</u>

CITY OF COTTONWOOD, ARIZONA
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes				
Sales taxes	\$ 3,365,745	\$ 3,505,235	\$ 3,649,711	\$ 144,476
Charges for services	1,359,190	1,359,190	-	(1,359,190)
Investment earnings	<u>40,400</u>	<u>94,260</u>	<u>145,320</u>	<u>51,060</u>
Total Revenues	<u>4,765,335</u>	<u>4,958,685</u>	<u>3,795,031</u>	<u>(1,163,654)</u>
Expenditures				
Debt Service				
Principal retirement	2,452,100	2,452,100	2,015,000	437,100
Interest on long-term debt	<u>8,222,345</u>	<u>11,996,460</u>	<u>415,113</u>	<u>11,581,347</u>
Total Expenditures	<u>10,674,445</u>	<u>14,448,560</u>	<u>2,430,113</u>	<u>12,018,447</u>
Excess (deficiency) of revenues over expenditures	<u>(5,909,110)</u>	<u>(9,489,875)</u>	<u>1,364,918</u>	<u>10,854,793</u>
Other financing sources (uses)				
Transfers in	360,430	360,430	360,430	-
Transfers out	<u>(3,770,690)</u>	<u>(50,210)</u>	<u>-</u>	<u>50,210</u>
Total other financing sources (uses)	<u>(3,410,260)</u>	<u>310,220</u>	<u>360,430</u>	<u>50,210</u>
Net change in fund balances	(9,319,370)	(9,179,655)	1,725,348	10,905,003
Fund balances, beginning of year	<u>9,319,370</u>	<u>9,179,655</u>	<u>9,179,655</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,905,003</u>	<u>\$ 10,905,003</u>

CITY OF COTTONWOOD, ARIZONA
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental	\$ -	\$ -	\$ 3,468	\$ 3,468
Investment earnings	-	24,600	34,150	9,550
Total Revenues	-	24,600	37,618	13,018
Expenditures				
Capital outlay	31,344,810	10,157,010	4,841	10,152,169
Total Expenditures	31,344,810	10,157,010	4,841	10,152,169
Excess (deficiency) of revenues over expenditures	(31,344,810)	(10,132,410)	32,777	10,165,187
Other financing sources (uses)				
Transfers in	1,198,560	-	-	-
Proceeds of long-term debt issuance	30,146,250	8,919,890	-	(8,919,890)
Total other financing sources (uses)	31,344,810	8,919,890	-	(8,919,890)
Net change in fund balances	-	(1,212,520)	32,777	1,245,297
Fund balances, beginning of year	-	1,212,520	1,212,512	(8)
Fund balances, end of year	\$ -	\$ -	\$ 1,245,289	\$ 1,245,289

CITY OF COTTONWOOD, ARIZONA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental	\$ 120,230	\$ 120,230	\$ 120,218	\$ (12)
Investment earnings	200	160	174	14
Other	<u>20,000</u>	<u>18,800</u>	<u>25,954</u>	<u>7,154</u>
Total Revenues	<u>140,430</u>	<u>139,190</u>	<u>146,346</u>	<u>7,156</u>
Expenditures				
Current				
Culture and recreation	<u>652,600</u>	<u>615,675</u>	<u>632,526</u>	<u>(16,851)</u>
Total Expenditures	<u>652,600</u>	<u>615,675</u>	<u>632,526</u>	<u>(16,851)</u>
Excess of revenues over expenditures	<u>(512,170)</u>	<u>(476,485)</u>	<u>(486,180)</u>	<u>(9,695)</u>
Other financing sources (uses)				
Transfers in	<u>502,740</u>	<u>431,270</u>	<u>502,740</u>	<u>71,470</u>
Total other financing sources (uses)	<u>502,740</u>	<u>431,270</u>	<u>502,740</u>	<u>71,470</u>
Net change in fund balances	(9,430)	(45,215)	16,560	61,775
Fund balances, beginning of year	<u>9,430</u>	<u>45,215</u>	<u>45,215</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,775</u>	<u>\$ 61,775</u>

CITY OF COTTONWOOD, ARIZONA
AIRPORT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Charges for services	\$ 650	\$ 500	\$ 345	\$ (155)
Rents and royalties	<u>66,950</u>	<u>67,050</u>	<u>71,077</u>	<u>4,027</u>
Total Revenues	<u>67,600</u>	<u>67,550</u>	<u>71,422</u>	<u>3,872</u>
Expenditures				
Current				
General government	<u>75,640</u>	<u>95,810</u>	<u>37,993</u>	<u>57,817</u>
Total Expenditures	<u>75,640</u>	<u>95,810</u>	<u>37,993</u>	<u>57,817</u>
Excess (deficiency) of revenues over expenditures	(8,040)	(28,260)	33,429	61,689
Excess (deficiency) of revenues over expenditures	<u>(8,040)</u>	<u>(28,260)</u>	<u>33,429</u>	<u>61,689</u>
Other financing sources (uses)				
Transfers out	<u>(24,470)</u>	<u>(23,490)</u>	<u>(23,490)</u>	<u>-</u>
Total other financing sources (uses)	<u>(24,470)</u>	<u>(23,490)</u>	<u>(23,490)</u>	<u>-</u>
Net change in fund balances	(32,510)	(51,750)	9,939	61,689
Fund balances, beginning of year	<u>32,510</u>	<u>51,750</u>	<u>51,753</u>	<u>3</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,692</u>	<u>\$ 61,692</u>

CITY OF COTTONWOOD, ARIZONA
GRANT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental	\$ 1,178,440	\$ 546,000	\$ 440,239	\$ (105,761)
Contributions and donations	114,330	-	-	-
Investment earnings	-	100	54	(46)
Other	80,770	-	-	-
Total Revenues	<u>1,373,540</u>	<u>546,100</u>	<u>440,293</u>	<u>(105,807)</u>
Expenditures				
Current				
General government	10,000	-	73,590	(73,590)
Culture and recreation	990,600	660,000	429,293	230,707
Capital outlay	523,920	-	-	-
Total Expenditures	<u>1,524,520</u>	<u>660,000</u>	<u>502,883</u>	<u>157,117</u>
Excess (deficiency) of revenues over expenditures	<u>(150,980)</u>	<u>(113,900)</u>	<u>(62,590)</u>	<u>51,310</u>
Other financing sources (uses)				
Transfers in	150,980	150,000	58,025	(91,975)
Total other financing sources (uses)	<u>150,980</u>	<u>150,000</u>	<u>58,025</u>	<u>(91,975)</u>
Net change in fund balances	-	36,100	(4,565)	(40,665)
Fund balances, beginning of year	-	-	4,565	4,565
Fund balances, end of year	<u>\$ -</u>	<u>\$ 36,100</u>	<u>\$ -</u>	<u>\$ (36,100)</u>

CITY OF COTTONWOOD, ARIZONA
CDBG FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ <u>814,480</u>	\$ <u>295,700</u>	\$ <u>340,766</u>	\$ <u>45,066</u>
Total Revenues	<u>814,480</u>	<u>295,700</u>	<u>340,766</u>	<u>45,066</u>
Expenditures				
Current				
Highways and streets	300,000	266,530	333,346	(66,816)
Redevelopment and housing	<u>514,480</u>	<u>29,170</u>	<u>7,420</u>	<u>21,750</u>
Total Expenditures	<u>814,480</u>	<u>295,700</u>	<u>340,766</u>	<u>(45,066)</u>
Excess (deficiency) of revenues over expenditures	-	-	-	-
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF COTTONWOOD, ARIZONA
CEMETERY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Investment earnings (loss)	\$ 20	\$ 25	\$ 29	\$ 4
Other	<u>4,200</u>	<u>6,000</u>	<u>5,490</u>	<u>(510)</u>
Total Revenues	<u>4,220</u>	<u>6,025</u>	<u>5,519</u>	<u>(506)</u>
Expenditures				
Current				
General government	<u>27,290</u>	<u>29,110</u>	<u>28,288</u>	<u>822</u>
Total Expenditures	<u>27,290</u>	<u>29,110</u>	<u>28,288</u>	<u>822</u>
Excess (deficiency) of revenues over expenditures	<u>(23,070)</u>	<u>(23,085)</u>	<u>(22,769)</u>	<u>316</u>
Other financing sources (uses)				
Transfers in	<u>23,070</u>	<u>17,680</u>	<u>23,070</u>	<u>5,390</u>
Total other financing sources (uses)	<u>23,070</u>	<u>17,680</u>	<u>23,070</u>	<u>5,390</u>
Net change in fund balances	-	(5,405)	301	5,706
Fund balances, beginning of year	<u>-</u>	<u>5,405</u>	<u>5,405</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,706</u>	<u>\$ 5,706</u>

STATISTICAL SECTION

CITY OF COTTONWOOD, ARIZONA
GOVERNMENT-WIDE EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	General Government	Public Safety	Highways and Streets	Culture and Recreation	Redevelopment and Housing	Interest on Long-term Debt	Sewer	Water	Totals
2003	\$ 1,935,444	\$ 3,440,847	\$ 2,088,749	\$ 738,018	\$ -	\$ 617,896	\$ 1,756,223	\$ -	\$ 10,577,177
2004	3,165,670	3,754,576	1,178,261	1,219,169	59,157	521,391	1,756,288	-	11,654,512
2005	3,391,797	3,955,040	1,756,480	1,188,433	12,895	433,955	1,829,552	1,647,241	14,215,393

Note: 2002-03 was the City's first year to prepare government-wide financial statements.

Fiscal Year	Program Revenues			General Revenues				
	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Impact Fees	Revenue Sharing	Investment Earnings (loss)	Other
2003	\$ 2,509,580	\$ 2,009,528	\$ -	\$ 6,767,354	\$ 263,414	\$ 2,307,288	\$ (96,505)	\$ 990
2004	2,642,798	1,757,041	607,633	7,262,398	462,773	2,179,761	238,604	1,407
2005	4,306,917	1,312,060	1,801,971	8,066,396	292,026	2,309,728	415,411	490

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CITY OF COTTONWOOD, ARIZONA
GENERAL GOVERNMENT EXPENDITURES BY FUNCTION (1)
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	General Government	Public Safety	Highways and Streets	Health and Welfare	Culture and Recreation	Redevelopment and Housing	Capital Outlay	Debt Service	Total
1996	\$ 1,640,231	\$ 1,936,264	\$ 1,014,829	\$ 27,340	\$ 842,524	\$ -	\$ 484,844	\$ 1,502,714	\$ 7,448,746
1997	1,870,016	2,092,252	1,116,372	75,818	831,516	-	564,514	1,506,443	8,056,931
1998	1,987,772	2,562,444	1,131,388	-	919,768	-	11,905	1,511,753	8,125,030
1999	2,181,654	2,439,463	759,330	-	976,736	-	1,035,088	1,515,740	8,908,011
2000	2,443,369	2,683,135	1,066,573	-	1,003,871	-	444,791	1,952,900	9,594,639
2001	2,675,059	3,017,613	3,258,826	-	1,104,134	-	182,059	2,365,648	12,603,339
2002	2,344,326	3,012,749	1,313,991	-	1,064,309	-	3,467,879	2,581,897	13,785,151
2003	2,463,621	3,378,651	1,789,262	-	1,147,835	-	519,808	2,592,896	11,892,073
2004	2,748,927	3,700,437	1,206,585	-	1,174,615	45,317	1,527,010	2,571,391	12,974,282
2005	3,291,331	3,888,439	2,576,666	-	1,647,340	7,420	4,841	2,538,955	13,954,992

(1) Includes all Governmental Fund Types.

CITY OF COTTONWOOD, ARIZONA
GENERAL GOVERNMENT REVENUES BY SOURCE (1)
LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Inter- Governmental</u>	<u>Fines and Forfeitures</u>	<u>Licenses and Permits</u>	<u>Charges for Services</u>	<u>Other</u>	<u>Total</u>
1996	\$ 4,270,809	\$ 3,019,248	\$ 110,764	\$ 152,697	\$ 438,383	\$ 484,852	\$ 8,476,753
1997	4,862,534	2,969,587	110,665	259,426	500,692	501,671	9,204,575
1998	5,190,925	2,812,376	107,272	312,289	477,946	507,528	9,408,336
1999	4,968,076	3,975,090	149,230	292,460	536,657	528,799	10,450,312
2000	6,131,972	3,397,120	131,147	261,410	545,023	639,089	11,105,761
2001	6,229,506	4,789,242	131,335	277,103	705,025	812,721	12,944,932
2002	6,864,321	4,015,571	149,726	248,391	674,722	946,039	12,898,770
2003	6,767,354	4,302,568	144,252	251,794	686,362	240,042	12,392,372
2004	7,262,398	4,536,910	136,045	399,709	721,605	423,609	13,480,276
2005	8,066,396	5,420,044	188,403	514,256	786,746	455,080	15,430,925

(1) Includes all Governmental Fund Types.

CITY OF COTTONWOOD, ARIZONA
TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Sales Tax</u>	<u>Franchise Tax</u>	<u>Motor Vehicle Lieu Tax</u>	<u>Bed Tax</u>	<u>State Sales Tax</u>	<u>Total</u>
1996	\$ 4,318,523	\$ 172,282	\$ 270,400	\$ 54,718	\$ 479,018	\$ 5,294,941
1997	4,627,006	184,400	310,978	59,128	461,962	5,643,474
1998	4,928,395	205,846	331,770	56,684	487,913	6,010,608
1999	4,645,602	222,469	430,338	56,424	523,018	5,877,851
2000	5,917,582	228,659	498,623	61,356	574,901	7,281,121
2001	6,079,681	251,053	538,498	66,556	614,270	7,550,058
2002	6,491,930	297,675	617,294	74,716	707,338	8,188,953
2003	6,515,619	184,996	612,487	66,739	717,869	8,097,710
2004	7,001,124	194,535	579,864	66,026	772,232	8,613,781
2005	7,793,950	200,448	615,579	71,998	850,346	9,532,321

(1) Includes all Governmental Fund Types.

CITY OF COTTONWOOD, ARIZONA
 ASSESSED AND ESTIMATED ACTUAL VALUE OF PROPERTY
 LAST TEN FISCAL YEARS
 (UNAUDITED)

Fiscal Year	Primary Tax		Ratio of Total Assessed to Total Estimated Actual Value	Secondary Tax			
	Full Cash Value	Net Assessed Value (1)		Centrally Valued (2)	Real Property (1)	Personal Property (1)	Total Secondary
1996	\$ 251,640,203	\$ 37,846,216	15.04 %	\$ 4,428,937	\$ 34,287,005	\$ 2,018,373	\$ 40,734,315
1997	272,235,942	40,755,801	14.97	4,936,684	34,602,165	2,770,118	42,308,967
1998	302,681,480	43,374,275	14.33	4,993,117	37,334,884	3,170,836	45,498,837
1999	321,728,233	47,007,524	14.61	4,823,817	40,067,603	3,271,398	48,162,818
2000	352,186,932	51,796,394	14.71	4,077,530	45,407,307	4,169,928	53,654,765
2001	400,686,974	57,312,785	14.30	3,648,858	49,045,564	5,772,846	58,467,268
2002	436,414,927	62,436,068	14.31	6,452,495	51,835,575	6,344,123	64,632,193
2003	472,073,304	66,712,235	14.13	7,300,097	57,546,886	3,296,673	68,143,656
2004	513,558,746	72,912,386	14.20	7,715,865	67,164,281	2,906,551	77,786,697
2005	561,103,255	78,592,832	14.01	6,716,745	73,924,040	2,616,548	83,257,333

(1) Assessed values are based on property use:

Residential Owner Occupied	10%
Rental Residential	10%
Agriculture/Vacant Land	16%
Commercial	25%

(2) Utilities and Railroads

CITY OF COTTONWOOD, ARIZONA
PROPERTY TAX RATES - ALL OVERLAPPING GOVERNMENTS
(PER \$100 OF ASSESSED VALUATION)
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	City	Yavapai County (2)	State of Arizona (2) (3)	Cottonwood/Mingus (1) (2)	Community College (2)	Total
1996	-	2.4713 p	-	5.0562 p	1.5448 p	9.0723
	-	0.4784 s	-	2.2196 s	0.1223 s	2.8203
1997	-	2.5108 p	-	4.7667 p	1.5237 p	8.8012
	-	0.4278 s	-	2.6680 s	0.1223 s	3.2181
1998	-	2.3363 p	-	5.1970 p	1.4589 p	8.9922
	-	0.4097 s	-	2.4684 s	0.1055 s	2.9836
1999	-	2.2768 p	-	4.5313 p	0.1463 p	6.9544
	-	0.4354 s	-	1.6145 s	0.1058 s	2.1557
2000	-	2.2374 p	-	4.6590 p	1.5294 p	8.4258
	-	0.4452 s	-	1.4293 s	0.0956 s	1.9701
2001	-	2.1040 p	-	4.8308 p	1.5330 p	8.4678
	-	0.4286 s	-	1.3214 s	0.0875 s	1.8375
2002	-	2.0961 p	-	4.2178 p	1.5835 p	7.8974
	-	0.4297 s	-	1.0659 s	0.3954 s	1.8910
2003	-	2.0961 p	-	4.2178 p	1.5835 p	7.8974
	-	0.4297 s	-	1.0659 s	0.3954 s	1.8910
2004	-	2.1525 p	-	3.3825 p	1.5672 p	7.1022
	-	0.4307 s	-	1.0624 s	0.3106 s	1.8037
2005	-	2.1568 s	-	3.6118 s	1.5626 s	7.3312
	-	0.0407 s	-	0.8956 s	0.2888 s	1.2251

(1) Includes Cottonwood/Oak Creek and Mingus Union Districts.

(2) p - Primary
s - Secondary

(3) The State of Arizona eliminated the property tax in 1996.

CITY OF COTTONWOOD, ARIZONA
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2005
(UNAUDITED)

Net secondary assessed valuation	\$ <u>83,257,333</u>
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Calculation of 20% Debt Limitation

20% of secondary net assessed valuation	\$ 16,651,467
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Bonds outstanding	<u>-</u>
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Net 20% Debt Limitation	<u>16,651,467</u>
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Calculation of 6% Debt Limitation

6% of secondary net assessed valuation	4,995,440
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Bonds outstanding	<u>-</u>
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Net 6% Debt Limitation	<u>4,995,440</u>
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Total Bonding Capacity	\$ <u>21,646,907</u>
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- (1) General obligation bonds are secured by the ad valorem taxing power of the City. Within the percentage of assessed valuation limitation above, the City may issue bonds for general improvement purposes or for specific projects.
- (2) For statutory purposes, the City outstanding bonds are not considered general obligation bonds subject to the statutory limits listed above because the City's bonds outstanding at June 30, 2003, were secured by sales taxes instead of property taxes.

CITY OF COTTONWOOD, ARIZONA
RATIO OF NET GENERAL OBLIGATION BONDED DEBT TO GROSS TAXABLE SALES
AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Estimated Population (1)</u>	<u>Gross Taxable Sales</u>	<u>Gross Bonded Debt</u>	<u>Less Debt Service Fund</u>	<u>Net Bonded Debt</u>	<u>Ratio of Net Bonded Debt to Gross Taxable Sales</u>	<u>Net Bonded Debt Per Capita</u>
1995-96	6,675	\$198,347,864	\$11,590,000	\$ 3,861,980	\$ 7,728,020	3.90 %	\$ 1,158
1996-97	6,770	222,542,818	10,730,000	3,301,635	7,428,365	3.34	1,097
1997-98	7,300	232,913,182	9,820,000	4,574,352	5,245,648	2.25	719
1998-99	7,775	248,231,902	8,855,000	5,568,629	3,286,371	1.32	423
1999-00	8,845	264,558,135	7,825,000	6,724,453	1,100,547	0.42	124
2000-01	9,179	281,958,145	6,735,000	7,091,639	-	-	-
2001-02	9,770	294,475,869	5,570,000	8,248,109	-	-	-
2002-03	10,240	309,199,662	4,330,000	9,132,888	-	-	-
2003-04	10,280	309,199,662	3,515,000	9,179,655	-	-	-
2004-05	10,665	357,543,090	2,650,000	10,905,003	-	-	-

(1) Arizona Statistics Economic Estimates Commission (EEC) and the Arizona Department of Economic Security were used in developing the population estimates. 1990 population figures were based on the census data.

CITY OF COTTONWOOD, ARIZONA
 RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL OBLIGATION
 BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
 LAST TEN FISCAL YEARS
 (UNAUDITED)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service (1)</u>	<u>Total General Government Expenditures</u>	<u>Ratio of Debt Service to General Government Expenditures</u>
1995-96	\$ 815,000	\$ 682,998	\$ 1,497,998	\$ 7,448,746	20.11 %
1996-97	860,000	641,728	1,501,728	8,056,931	18.64
1997-98	910,000	601,753	1,511,753	8,125,030	18.61
1998-99	965,000	550,740	1,515,740	8,908,011	17.02
1999-00	1,030,000	493,233	1,523,233	9,594,639	15.88
2000-01	1,640,000	725,648	2,365,648	12,603,339	18.77
2001-02	1,805,800	667,158	2,472,958	13,785,151	17.94
2002-03	1,975,000	617,896	2,592,896	11,892,072	21.80
2003-04	1,960,000	502,549	2,462,549	12,974,282	18.98
2004-05	2,015,000	401,331	2,416,331	13,954,992	17.32

(1) Excludes bond issuance and other refinancing costs.

Note: Revenues to pay general obligation bonded debt are derived from City sales tax.

CITY OF COTTONWOOD, ARIZONA
COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
JUNE 30, 2005
(UNAUDITED)

Jurisdiction	General Obligation Bonded Debt (3)	Percentage Applicable to City (1)	Amount Applicable to City
<u>City of Cottonwood, Arizona</u>	\$ -	100.00 %	\$ -
Yavapai County	76,808,367	4.55 %	3,494,781
Yavapai Community College District	61,725,000	4.85 %	2,993,663
Cottonwood/Oak Creek School District	3,965,000	44.98 %	1,783,457
Mingus Union High School District	-	39.22 %	-
Total Direct and Overlapping Debt			<u>\$ 8,271,901</u>

	Total Assessed Valuation	Valuation in Cottonwood (2)	Percent in Cottonwood
Yavapai County	\$ 1,785,174,684	\$ 78,592,832	4.40 %
Yavapai Community College District	1,785,174,684	83,257,333	4.66 %
Cottonwood/Oak Creek School District	190,195,966	83,257,333	43.77 %
Mingus Union High School District	231,140,255	83,257,333	36.02 %

- (1) Debt allocation is based on distribution of assessed valuation within overlapping tax districts.
- (2) The secondary assessed valuation is used in Yavapai Community College District, Cottonwood/Oak Creek and Mingus Union High School District. The primary assessed valuation is used for Yavapai County.
- (3) General obligation bonded debt includes only the debt supported by property tax collections.

CITY OF COTTONWOOD, ARIZONA
DEMOGRAPHIC STATISTICS
LAST TEN CALENDAR YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Estimated Population (2)</u>	<u>Median Household Income (1)</u>	<u>Unemployment Rate (2)</u>	<u>Public School Enrollment (3)</u>
1996	6,675	\$ 18,908	4.60 %	2,247
1997	6,770	19,142	4.70	2,282
1998	7,300	20,055	4.50	2,419
1999	7,775	20,650	4.30	2,248
2000	8,845	21,204	4.40	2,432
2001	9,179	23,804	4.40	2,510
2002	9,770	27,444	3.80	2,559
2003	10,240	28,318	4.50	2,642
2004	10,280	28,986	3.60	2,981
2005	10,665	29,654	3.90	3,432

Source:

- (1) Estimated based on average increase in disposable income per U.S. Economic Indicators and the 1990 census data.
- (2) Arizona Statistics Economic Commission (EEC) and the Arizona Department of Economic Security estimated population.
- (3) Annual school census by Cottonwood School Districts. Enrollment figures adjusted to City residents only.

CITY OF COTTONWOOD, ARIZONA
CONSTRUCTION, BANK DEPOSITS AND PROPERTY VALUES
LAST TEN CALENDAR YEARS
(UNAUDITED)

	Commercial Construction		Residential Construction			Bank Deposits (2) Yavapai County	
Calendar Year	Number of Permits	Value	Number of Permits	Value	Fair Market Value (1)	Calendar Year	Amount (in Thousands)
1995	349	\$ 4,450,293	36	\$ 8,831,151	\$ 251,640,203	1995	\$ 1,216,223
1996	682	7,982,796	159	18,637,338	272,235,942	1996	1,361,915
1997	683	30,260,777	184	23,265,668	302,681,480	1997	1,214,233
1998	640	13,546,442	232	31,210,374	321,728,233	1998	1,634,967
1999	556	12,158,951	200	22,787,057	352,186,932	1999	1,352,075
2000	523	12,181,335	191	25,476,924	400,686,974	2000	1,437,398
2001	535	10,877,983	215	23,733,104	447,974,233	2001	1,525,233
2002	336	16,671,345	82	7,193,014	472,073,304	2002	1,488,655
2003	481	31,779,419	73	14,908,544	513,558,746	2003	1,575,833
2004	583	22,921,035	184	20,838,151	561,103,255	2004	1,475,839

(1) Breakdown of commercial and residential not available.

(2) From the Arizona Banking Association. In 1997, Wells Fargo Bank no longer reported deposits by county in Arizona.

CITY OF COTTONWOOD, ARIZONA
FIREMEN PENSION TRUST FUND
LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Fund Balance</u>	<u>Number of Retirees</u>	<u>Monthly Benefits</u>
1996	\$ 8,255	\$ 5,676	\$ 46,452	\$ 2	\$ 150
1997	18,105	4,398	60,159	2	150
1998	10,456	4,367	66,248	2	150
1999	12,094	6,443	71,899	3	150
2000	11,969	17,864	66,004	2	150
2001	10,959	10,529	66,434	2	150
2002	9,464	10,418	65,480	2	150
2003	9,778	13,208	62,060	2	150
2004	55,670	26,603	91,127	2	150
2005 (1)	62,193	36,559	116,761	2	150

(1) There are currently thirteen (13) active members of which two (2) are retired.

CITY OF COTTONWOOD, ARIZONA
MISCELLANEOUS STATISTICAL DATA
JUNE 30, 2005
(UNAUDITED)

EDUCATION

Schools:

Grades K-2	1
Grades 3-5	1
Grades 6-8	1
Grades 9-12	1
Exceptional Children Program	1

Students

Grades Pre-K-2	556
Grades 3-5	520
Grades K-5	400
Grades 6-8	737
Grades 9-12	<u>1,219</u>
Total students	3,432

POLICE PROTECTION

Number of employees	35
Number of stations	1

FIRE PROTECTION

Number of employees - Full time	14
Number of employees - Part time	20
Number of stations	1

CITY EMPLOYEES

124

PAVED STREETS

54 miles

UNPAVED STREETS

3 miles

AREA OF CITY

15.75 square miles

MAJOR EMPLOYERS

Verde Valley Medical Center	800
Walmart	440
Cotton/Oak Creek Schools (Cottonwood only)	306
Phelp's and Sons - Manufacturing	200
Fry's - Retail	137
Mingus Union High School	136
City of Cottonwood	124
Home Depot	120
Safeway - Retail	103
Food City - Retail	85